1978

Updated illustrations of accounting policy disclosure : a survey of applications of APB opinion no. 22; Financial report survey, 15

Hortense Goodman

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FINANCIAL REPORT SURVEY 15

COMPLETELY NEW 1978 EDITION

Updated Illustrations of Accounting Policy Disclosure

A survey of applications of APB Opinion No. 22

By Hortense Goodman, CPA
and
Leonard Lorensen, CPA

AICPA
American Institute of Certified Public Accountants

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by HORTENSE GOODMAN, CPA
AND
LEONARD LORENSEN, CPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

NOTICE TO READERS

This is a publication of the staff of the American Institute of Certified Public Accountants and is not to be regarded as an official pronouncement of the Institute.

PREFACE

The first edition of *Illustrations of Accounting Policy Disclosure* was published in 1972 and received wide distribution. In light of the number of accounting pronouncements issued since 1972 and modified views on accounting policy disclosures, the decision was made to compile this updated edition.

This publication is the fifteenth in a series produced by the Institute's staff through use of the Institute's National Automated Accounting Research System (NAARS). Earlier publications in the series are listed on the inside cover of this publication.

The purpose of the series is to provide interested readers with examples of the application of technical pronouncements. It is believed that those who are confronted with problems in the application of pronouncements can benefit from seeing how others apply them in practice.

It is the intention to publish periodically similar compilations of information of current interest dealing with aspects of financial reporting.

The examples presented were selected from over seven thousand annual reports stored in the NAARS computer data base.

This compilation presents only a limited number of examples and is not intended to encompass all aspects of the application of the pronouncements covered in this survey. Individuals with special application problems not illustrated in the survey may arrange for special computer searches of the NAARS data banks by contacting the Institute.

The views expressed are solely those of the staff.

George Dick
Research Administrator, Technical Information Department

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I

SCOPE AND PURPOSE OF THE SURVEY

APB OPINION NO. 22

The accounting policies of a reporting entity are the specific accounting principles and methods of applying those principles that are judged by the management of the entity to be appropriate in the circumstances to present fairly financial position, changes in financial position, and results of operations in conformity with generally accepted accounting principles and that accordingly have been adopted for preparing the financial statements. In April 1972 the AICPA Accounting Principles Board issued Opinion No. 22, "Disclosure of Accounting Policies," which requires a description of all significant accounting policies of a reporting entity to be included as an integral part of the financial statements.

Opinion No. 22 requires the description of accounting policies to encompass those accounting principles and methods that involve any of the following:

a. A selection from existing acceptable alternatives;
b. Principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry;
c. Unusual or innovative applications of generally accepted accounting principles (and, as applicable, of principles and methods peculiar to the industry in which the reporting entity operates).

Examples of accounting policies commonly required to be disclosed include those relating to the basis of consolidation, depreciation methods, amortization of intangibles, and inventory pricing.

Opinion No. 22 is reproduced in the appendix to this survey.

SOURCE OF ILLUSTRATIONS

The selection of accounting policies and their presentation in accordance with Opinion No. 22 require considerable judgment. An accountant who is confronted with problems in selecting or presenting accounting policies can benefit from learning how other accountants are solving the problems in practice. Accordingly, three hundred seventy one excerpts from financial statements contained in recently published annual reports to shareholders of business enterprises are presented in this publication to illustrate what accounting policies are being selected currently and how they are being disclosed.

A similar survey of accounting policies disclosure was published by the AICPA in 1972. Since then, numerous authoritative pronouncements in accounting have been issued and the accounting policies adopted by business enterprises have changed significantly. Because of those changes, a new survey of accounting policies disclosure seems appropriate.

The AICPA National Automated Accounting Research System (NAARS) was used to compile the information. The examples presented were selected from the published annual reports to shareholders of more than 7,000 companies stored in the computer data base.

II

COMPLETE ACCOUNTING POLICIES SUMMARIES CLASSIFIED BY TYPE OF INDUSTRY

Opinion No. 22 states that accounting policies disclosure is particularly useful if given in a separate Summary of Significant Accounting Policies preceding the notes to the financial statements or as the initial note, and preference is expressed in the Opinion for that format under the same or a similar title. The Summary should not duplicate details presented elsewhere as part of the financial statements, and in some cases should refer to related details presented elsewhere.

One hundred summaries of accounting policies are presented in this chapter. Since accounting policies differ among industries, the summaries are taken from companies operating in a wide variety of industries. In some cases the summaries illustrate accounting policies peculiar to particular industries and are classified by type of industry.

AGRICULTURE, FORESTRY AND FISHERIES

ALICO, INC.
Notes to Financial Statements

(A) Statement of Significant Accounting Policies

Financial Statements:

The accompanying financial statements do not include the accounts of the Company's wholly-owned real estate development affiliate, Saddlebag Lake Resorts, Inc. The Company has stated its investment in such affiliate on the equity basis of accounting. See Note K for a summary of such affiliate's financial position at August 31, 1976 and August 31, 1975, and the results of its operations for the years then ended.

Inventories:

Inventories are stated at the lower of cost ("first-in, first-out" method) or market. Cost of cattle is determined as follows: (1) Raised cattle at a fixed standard cost of raising (unit livestock method). The standard costs applied range from $25.00 per head for calves to a maximum of $55.00 per head for mature animals; (2) Purchased cattle at their purchase cost; (3) Cattle at the Georgia operation at the above applicable primary cost, plus the additional costs of growing out and finishing.

Property, Buildings and Equipment:

Properties, other than non-depreciable property, are depreciated on a straight line basis over their estimated useful lives (see Note D). Renewals and betterments are charged to property accounts. The cost of maintenance and repairs is charged against income as incurred. The cost of property retired or otherwise disposed of, and the related accumulated depreciation, are removed from the accounts, and any resulting gain or loss is taken into income.

Investment Tax Credit:

The Company accounts for the investment tax credit currently as a reduction of Federal income tax (flow-through method). Such credits for the years ended August 31, 1976 and August 31, 1975 amounted to $13,476 and $15,373, respectively.

Pensions:

The Company has a funded non-contributory pension plan covering all eligible full time employees. The Company's method of funding and accounting for pension costs is to fund and accrue all normal costs plus an amount necessary to amortize past service cost over a period of 10 years. (See Note I.)

Certain officers and employees also have employment contracts providing for additional retirement benefits. The Company purchased, as owner and beneficiary, individual life insurance policies on the lives of such officers and employees as a means of funding substantially all of such additional benefits. The Company's accounting policy with respect to such insurance coverage is to charge operations with the annual premium cost, net of increase in cash surrender value.

NATIONAL GRAPE CO-OPERATIVE ASSOCIATION, INC. AND WELCH FOODS INC., A COOPERATIVE

Notes to Financial Statements

Note A—Summary of Significant Accounting Policies

1. Basis of Consolidation

The consolidated financial statements include the accounts of National Grape Co-operative Association, Inc. (National) and its wholly-owned membership subsidiary, Welch Foods Inc., a Cooperative (Welch). Under the terms of a Crop Purchase Agreement between National and Welch, Welch pays National all of the net proceeds from its operations. The net proceeds are determined annually in accordance with generally accepted accounting principles with stipulations regarding the deduction of all expenses, taxes and losses incurred in the operation of the business, including any which relate to, arise out of, or are based upon transactions in years prior to the fiscal year for which the net proceeds are then determined.

2. Inventories and Change in Accounting Principle

Prior to the year-ended August 31, 1976 the Cooperative valued the patron grape content of inventories at the average harvest season per ton advance. Commencing with the year-ended August 31, 1976, the patron grape content of inventories is stated at estimated net realizable market value; such value being based upon estimated sales, less estimated production, plant overhead, selling and distribution, and financial and administrative costs. The change was made because, in the view of management, the new method is a more generally accepted method in the industry. The change had no effect on net proceeds since it represented an increase in both inventory and amounts payable to patrons of a like amount.

All other inventories are stated at the lower of cost (first-in, first-out method) or market.

3. Property

Property, plant and equipment are stated at cost. Depreciation is provided principally on the declining balance and sum-of-the-years-digits methods. For assets acquired prior to September 1, 1969, depreciation is recorded on the straight-line method. Expenditures for maintenance and repairs are charged to operations as incurred. Major improvements and renewals are capitalized. Fully depreciated assets, less salvage, are charged to the depreciation reserve while gains and losses arising from retirements or sales are reflected currently in operations.

The estimated service lives of the assets used in determining depreciation and amortization are as follows:

Buildings and building improvements	33½ years
Land improvements	10 years
Machinery and equipment	10-12 years
Automotive equipment	3-5 years
Furniture and fixtures	10 years

4. Federal Income Taxes

National and Welch, as cooperatives, are not subject to Federal income taxes on net proceeds earned and distributed or allocated to patrons. However, Welch is subject to tax on income, if any, relating to non-patronage sources. The investment tax credit, which is not material, is applied against the current income tax expense, if any.

5. Pension Plan

National and Welch have a non-contributory pension plan covering substantially all employees not covered by a union sponsored plan. The policy is to fund pension costs accrued. Contributions under the plan amounted to $699,000 (1976) and $506,000 (1975) including amortization of prior service costs over a thirty year period. The trust fund assets at the date of the latest actuarial report approximate the computed value of vested benefits. Studies are being conducted to ascertain the changes necessary to conform the pension plan to the requirements of the Employee Retirement Income Security Act of 1974. Additional pension costs resulting from such plan revisions are not expected to be material. In addition, certain of the employees are covered by union administered plans to which Welch contributes.

6. Goodwill

The goodwill is not being amortized since management is of the opinion that it is permanent in nature.

7. Waste Water Facilities

In connection with the construction of municipally-owned waste water facilities at certain of its plants, Welch has capitalized its proportionate share of the capital expenditures as allocated to the industrial users of these facilities. Amortization is provided over the terms of the underlying agreements. Expenses are charged to operations as incurred. As security for the obligation of Welch on one facility, a mortgage in the amount of $1,500,000 was issued on one of Welch's plants. The mortgage lien is reduced proportionately for each successive year in which Welch meets its obligations.

THE NEWHALL LAND AND FARMING COMPANY

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Accounting policies related to each of the Company's lines of business are:

Agriculture/Farming Revenue is recognized as crops are sold. Most of the crops are sold to farm cooperatives (or to food processors) which market the crops throughout a period of approximately one year after harvest. At the time of delivery, the Company estimates the proceeds to be received from the cooperatives and records these amounts as unbilled receivables. During the year following harvest, the Company records any adjustments of such estimated amounts resulting from changing market conditions. Net income for the years ended February 28, 1977 and February 29, 1976 increased approximately $315,000 and $936,000, respectively, resulting from such adjustments. Revenues from crops sold outright to purchasers are recorded at the time of delivery.

Costs directly related to crops are included in inventory until a sale is recognized. Costs incurred during the development stage of vineyard and orchard crops (ranging from three to ten years) are capitalized and amortized over the productive life of the vines or trees. Farming costs which cannot be readily identified with a specific harvested crop or other revenue producing activity are expensed as incurred.

Agricultural inventories include materials and supplies, crops in process, harvested crops and processed crops (primarily dehydrated alfalfa and sugar beet products) and are valued at the lower of cost or market, determined on the first-in, first-out method.

Agriculture/Cattle Revenue is recognized upon sale. Cattle inventory is valued at the lower of cost or market with cost determined on an average cost basis.

Agriculture/Commodity Futures Transactions. During the year ended February 28, 1977 the

Company adopted a policy of hedging agricultural and cattle inventories and production in order to reduce the risk of price fluctuation by entering into futures contracts on the commodity exchanges. Gains and losses (both realized and unrealized) on hedging transactions are deferred until the sale of the related inventory. If deferring losses would result in inventory amounts exceeding estimated net realizable values, such losses would be recognized currently. Futures transactions which do not closely correlate to a specific commodity are valued at market.

Recreation. Food and merchandise revenues at the amusement park and other recreation activities are recorded as cash sales. Revenues from ticket sales are recognized as the tickets are presented for admission.

Energy. Oil royalties and the Company's share of the revenues from refined products derived from royalties paid in kind) are recognized as the oil is produced and sold. Gas is sold under a long-term contract with a major utility and revenue is recognized as the gas is produced. Drilling and development costs of producing wells are capitalized and amortized over a period which approximates the period of recovery of the mineral reserves. Costs relating to nonproductive drilling are charged against income as incurred. Acquisition costs of unproven oil or gas properties are deferred and expensed as the leases are abandoned.

Real Estate/Commercial. Revenue from leasing commercial, industrial and multi-family housing properties is recognized in accordance with the provisions of the leases.

Real Estate/Land. Land sale transactions are generally under agreements which require release of the land sold from the lien securing the related notes receivable approximately in proportion to the amount of cash received. Revenues and related costs are recognized as if each release was a separate sale.

Real Estate/Residential. Revenue from sale of single family and condominium living units is recognized at the close of escrow. Inventory costs, including property taxes and interest on construction borrowings, are relieved based on the ratio of the sales value of each unit to the estimated total sales value of the project.

Other general accounting policies are:

Basis of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany transactions are eliminated.

Marketable Securities. The cost of securities sold is based on the average cost of all shares of each security held at the time of sale. During fiscal 1977 and 1976, the Company realized gains of $175,000 and $364,000, respectively, on the sales of marketable equity securities.

Property and Equipment. Property is stated at cost (or, if on hand as of March 13, 1913, at appraised value as of that date), less proceeds from sales of easements and rights of way.

Depreciation of property and equipment is provided on a straight-line basis over the estimated useful lives of the various assets. Lives used for calculating depreciation are as follows: buildings—25 to 40 years; entertainment park facilities—15 years; equipment—4 to 10 years; water supply systems, orchards, roads and other land improvements—10 to 60 years.

Expenditures for maintenance, repairs and minor renewals are charged to income as incurred; expenditures for improvements, replacements and major renewals are capitalized. Assets retired, or otherwise disposed of, are eliminated from the asset accounts along with related amounts of accumulated depreciation. Any gains or losses from disposals are included in income.

Income Taxes. Taxes are provided on all revenue and expense items included in income, regardless of the period in which such items are recognized for tax purposes, except for items representing a permanent difference between accounting income and taxable income. Investment tax credits are recognized in the period in which the qualifying assets are placed in service.

Per Share Amounts. Primary income per share is computed by dividing the applicable income by the weighted average number of shares of common stock and common stock equivalents outstanding during the year. Common stock equivalents consist of dilutive stock options. Fully diluted income per share is computed by dividing the applicable income by the weighted average number of shares of common stock and common stock equivalents outstanding during the year and the common stock issuable if the convertible debentures had been converted into common stock at $41 per share at the beginning of the year. Such average shares were 5,502,000 for primary income per share and 6,326,000 for fully diluted income per share in 1977, and 5,477,000 for primary income per share and 6,308,000 for fully diluted income per share in 1976.

Retirement Plan. The Company has a retirement plan covering substantially all of its employees. Pension expense is based on actuarially computed normal service costs.

TEJON RANCH COMPANY
Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of the

Company and its subsidiaries. All material intercompany transactions have been eliminated in consolidation.

Treasury Bills and Short-Term Corporate Notes: Marketable securities are carried at cost which approximates market at the respective balance sheet dates.

Inventories and Cattle Breeding Herd: Cattle raised on the ranch are stated at previously established unit prices which are below current market; purchased bulls and cows used for breeding are stated at cost less depreciation (straight-line method over a seven year life); other cattle are stated at the lower of cost or market. Feed and seed inventories are valued at the lower of average cost or market. Direct costs of planting and growing crops are included in inventories.

Covenants not to Compete: The covenants not to compete are being amortized using the straight-line method over the life of the 10-year agreements.

Property and Equipment: Property and equipment accounts are stated on the basis of cost except for land acquired upon organization (1936) which is stated on the basis (presumed to be at cost) which was carried by the Company's predecessor. Estimated useful lives for buildings and improvements and water pipelines range from five to forty years, and estimated useful lives for other property and equipment range from three to twenty years. Maintenance and repairs are charged to expenses; major expenditures for improvements are capitalized. At the time assets are disposed of, allowances for depreciation are charged with the accumulated depreciation, and the resulting gains or losses are credited or charged to earnings.

Oil, gas, and mineral reserves have not been appraised, and no value has been assigned to them.

In 1975 and prior, depreciation was computed by both the straight-line and double-declining balance methods.

Effective January 1, 1976, the Company changed its method of computing the provision for depreciation on all assets to straight-line. The effect of the change is not material.

Investment Tax Credit: The investment tax credit is recognized on the flow-through method as a reduction of the provision for federal income taxes.

ALCOHOLIC AND MALT BEVERAGE DISTILLERS

THE AMERICAN DISTILLING COMPANY

Notes to Consolidated Financial Statements

Note 1—Significant Accounting Policies

Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries (all wholly-owned). All significant intercompany balances, transactions and profits are eliminated.

Inventories—Bulk whiskies and spirits produced by the Company are stated at production cost plus storage and those purchased from others are stated at acquisition cost plus storage. Bulk whiskies and spirits are stored under government bond with cost thereof determined by specific identification and, following generally recognized industry practices, are included in current assets regardless of the duration of the aging process.

Case goods produced by the Company and those purchased from others are stated at lower of first-in, first-out cost or market.

Work in process is stated at production cost, and raw materials and supplies are stated at the lower of average cost or market.

Federal taxes on whiskies and spirits in bond constitute a lien on these goods that is not payable until the goods are bottled and sold; therefore, no liability for such lien is recorded until withdrawal from bond. The Company has included the federal and state taxes applicable to goods sold ($78,164,000 in 1976 and $99,126,000 in 1975) in cost of sales.

Property, plant and equipment—These assets are stated at cost and are depreciated principally on the straight-line method over the estimated useful lives of the various assets.

Maintenance, repairs and minor renewals are charged against earnings when incurred. Additions and major renewals are capitalized.

The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in earnings.

Investment credit—Investment tax credits are accounted for using the flow-through method, which reduces the provision for federal income tax for the year in which the related properties are acquired or current taxes are provided.

Retirement plans—The Company's policy is to fund retirement cost accrued.

Earnings per share—The weighted average number of common and common equivalent shares in 1976 includes the dilutive effect of options computed under the treasury stock method. In 1975 options were excluded from the weighted average number of common shares outstanding because of their anti-dilutive effect.

CAESARS WORLD, INC.
Notes to Consolidated Financial Statements

I. Summary of Significant Accounting Policies:

a. Principles of consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all material intercompany balances and transactions. During the year ended July 31, 1976, the Company acquired control of Ontel Corporation (see Note 2).

b. Accounting for casino revenue and promotional allowances: In accordance with industry practice, the Company recognizes as casino revenue the net win from gaming activities, which is the difference between gaming wins and losses. The retail value of accommodations, food and beverages furnished without charge to customers of Caesars Palace are included in gross revenues and then deducted as promotional allowances. Other promotional items are treated as casino expenses.

c. Property and equipment and depreciation: Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight line method.

d. Capitalized leasehold: A lease obligation has been capitalized at its discounted value. The discount is being amortized on the interest method.

e. Excess of cost of investment over underlying book value:

	1976	1975
	(Thousands Omitted)	
Purchase of Caesars Palace	$43,971	$43,971
Purchase of Ontel Corporation, less amortization of $164,000 based on a ten year life (Note 2)	2,649	
	$46,620	$43,971

The excess of cost of investment over underlying book value pertaining to the purchase of Caesars Palace is believed to have continuing value and is therefore not being amortized.

f. Investment tax credit: The Company treats investment tax credits as a reduction of income taxes in the year in which the related investment tax credit arises under the flow-through method.

g. Capitalization of interest and property taxes: Carrying costs incurred in connection with planned real estate development have been capitalized as part of the related asset costs (see Notes 4 and 7).

h. Real estate leasing operations: Costs and expenses of leased properties are charged to income over the life of the leases.

HARRAH'S
Notes to Consolidated Fiancial Statements

1. Summary of Significant Accounting Policies

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation. The Company consolidates the accounts of all wholly owned subsidiaries and significant intercompany transactions are eliminated.

Casino Revenue. In accordance with common industry practice, the Company recognizes, as casino revenue, the net win from gaming activities, which is the difference between gaming wins and losses.

Promotional Allowances. Gross revenues include the retail value of complimentary food, beverage and hotel services furnished to customers. The retail value of these promotional allowances is deducted to arrive at net revenues.

The cost of promotional allowances is charged to food and beverage and lodging operating expenses.

Receivables. Gaming at Harrah's is conducted principally on a cash basis, although credit is extended to certain customers. Receivables included casino receivables in the amount of $2,062,648 at June 30, 1977, and $2,447,997 at June 30, 1976. Casino receivables are written off when deemed doubtful and are later restored to earnings if collection efforts succeed. Receivables deemed uncollectible have been charged to bad debts. An allowance for uncollectible receivables is not deemed necessary by management.

Inventories. Inventories are stated at the lower of cost or market, cost being determined principally on the average cost method and first-in, first-out basis.

Property and Equipment. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The estimated lives used in determining depreciation are:

Buildings and improvements	5-50 years
Equipment, furniture and fixtures	3-15 years
Leasehold improvements	shorter of term of lease or estimated service life

Other than amortization on restoration costs of automobiles in Harrah's Automobile Collection, which has been provided on the straight-line method, depreciation has generally been provided on the declining balance method for property and equipment acquired prior to July 1, 1972, for both income tax and financial statement purposes. Commencing with property and equipment placed in service subsequent to June 30, 1972, the Company adopted the straight-line method for financial statement purposes.

Maintenance, repairs and minor renewals are charged to operations as incurred. Additions, improvements and major renewals are capitalized at cost. Upon sale or disposition of properties, the cost and accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to earnings.

Included in land is the amount of $2,845,000 which represents the cost incurred to date for the acquisition of 375 acres designated as a location for the future Harrah's World.

Unamortized Lease Acquisition Costs. The unamortized lease acquisition costs are amortized on the straight-line method over the term of the leases.

Capitalized Debt Expense. The amortization of the capitalized debt expense of the 20-year, 7½% convertible subordinated debentures and the 20-year 9½% first mortgage bonds is computed based on the expected number of bonds outstanding during each year. The remaining debt expense attributable to debentures converted into common stock will be included in additional paid-in capital. At June 30, 1977, the unamortized balance included in other assets amounted to $1,835,000.

Federal Income Taxes. Deferred income taxes are provided on timing differences arising principally from the recognition of the excess of depreciation for income tax purposes on assets placed in service subsequent to June 30, 1972, over the related amounts for financial statement purposes.

Investment tax credits are accounted for by the "flow-through" method. Under this method, credits are recognized as a reduction of income tax expense in the year the assets giving rise to the credit are placed in service.

Earnings Per Common Share. Primary earnings per share are determined by dividing the consolidated net earnings by the weighted average number of common shares outstanding during the year (7,055,003 in 1977 and 7,055,000 in 1976).

Fully diluted earnings per share computations are based on the weighted average number of shares of common stock and equivalents outstanding, as if the outstanding convertible debentures had been converted into common stock on the date of issue and after giving effect to the elimination of interest expense and amortization of underwriting discounts and issuance expenses applicable to the convertible debentures. The fully diluted shares computed for the years ended June 30, 1977 and 1976 were 8,285,770 and 7,428,266, respectively.

There are no outstanding stock options or warrants.

WALT DISNEY PRODUCTIONS

Summary of Significant Accounting Policies

The Company's principal business is the production and distribution of theatrical and television films and the operation of two amusement theme parks, "Disneyland," California, and "Walt Disney World," Florida, which are referred to as entertainment and recreational activities. In addition, the Company has operations including music and records, character merchandising, publications and educational media materials, all referred to as consumer products and other. The following summary of the Company's significant accounting policies is presented as an integral part of the financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries, all wholly owned.

Film Production Costs and Amortization

Costs of completed theatrical and television film productions (negatives), together with applicable capitalized exploitation costs, are amortized by charges to income in the proportion that gross revenue received by the Company during the year for each production bears to the estimated total gross revenue to be received from all sources. Estimates of total gross revenue are reviewed periodically and amortization is adjusted accordingly. When unamortized cost exceeds the estimated producers share of film rentals the carrying value of the film is adjusted to net realizable value.

Inventories

Costs of merchandise, materials and supplies inventories are generally determined on the moving average basis and are stated at the lower of cost or market.

Entertainment Attractions, Facilities and Other Depreciable Assets

The Company classifies the costs of its two amusement theme parks (rides, attractions, exhibits, shops), recreational facilities (lake, lagoon, golf courses), theme resort hotels and direct support properties including buildings (warehouses, maintenance shops, administration), transportation systems and roads as entertainment attractions and facilities. Other buildings and equipment consist of properties at the Burbank studio, The Village shopping complex and other properties not directly related to entertainment and recreational activities.

Depreciation is provided principally on the straight line method using estimated service lives ranging from 4 to 50 years. Depreciation and maintenance and repairs are charged either directly to costs and expenses as incurred or to film production costs which are then amortized against income; major replacements and betterments are capitalized. The cost and related accumulated depreciation of property sold or retired are removed from the accounts and any resulting gain or loss is recorded in income.

Taxes on Income

Taxes are provided on all revenue and expense items included in the consolidated statement of income, regardless of the period in which such items are recognized for income tax purposes, except for items representing a permanent difference between pretax accounting income and taxable income. Investment tax credits, accounted for by the deferral method, are amortized as a reduction of the provision for taxes on income over the average service lives of the related assets.

Stock Options

Proceeds from the sale of common stock issued under stock option plans are accounted for as capital transactions and no charges or credits are made to income in connection with the plans.

Earnings per Share

Earnings per common and common equivalent share are computed on the basis of the average number of shares outstanding during each year, retroactively adjusted to give effect to all stock splits and stock dividends. It is assumed that all dilutive stock options are exercised at the beginning of each year and that the proceeds are used to purchase shares of the Company's common stock at the average market price during the year.

CONTRACT CONSTRUCTION

ARTHUR G. MCKEE & COMPANY

Notes to Consolidated Financial Statements

Note A—Accounting Policies

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. To facilitate timely interim and year-end financial reporting the German subsidiary (McKee GmbH) and the Argentine subsidiary (A. G. McKee & Co. Argentina, S.A.) are included based on fiscal years ended as of September 30 and November 30, 1976 respectively. Affiliates owned approximately fifty percent are carried at equity. Provision for income taxes on unremitted earnings of foreign subsidiaries is made on an estimated basis at the time the earnings are included in consolidated income except where the earnings are considered to be a permanent investment.

Earned revenue from engineering and construction contracts is recognized on the percentage-of-completion method based on the estimated stage of completion of individual contracts. Provision is made currently for estimated losses on uncompleted contracts. The Company includes in earned revenues and costs its proportionate share of the revenues and costs of joint ventures.

Engineering and construction contracts usually extend for periods in excess of one year. In accordance with industry practice the related accounts are classified as current assets. Accounts and notes receivable have been billed and are expected to be collected within one year. Contract work in progress represents accumulated costs and progress profits in excess of billings at the balance sheet date. The balances will be billed currently and are expected to be collected within one year. Contract retentions are billed when the retentions become due, usually upon completion of the contract. The balance of unbilled retentions at December 31, 1976 is expected to be billed $4,315,000 in 1977 and the remainder in 1978.

Depreciation is computed by the straight-line method generally using lives of four to ten years for equipment, forty-five years for buildings and ten years for other depreciable assets. The Company uses the flow-through method of accounting for the investment tax credit.

Expenditures for maintenance, repairs, and renewals are charged to operating expense or contract costs as incurred and betterments are capitalized.

Carrying amounts of properties sold or otherwise retired and the related allowances for depreciation are eliminated from the accounts at the time of disposal and the resulting gains and losses taken into income.

The intangible arose from the acquisition of a company in 1961 and is not currently being amortized.

FISCHBACH AND MOORE, INCORPORATED
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all significant domestic and foreign subsidiaries. The translation of foreign currency accounts into U.S. dollars has no significant effect on the consolidated financial statements.

Revenue Recognition

The companies generally follow the completed contract method of reporting income from contracts and provide for estimated losses on uncompleted contracts.

Contracts entered into by the companies generally provide that billings are to be made monthly in amounts which are commensurate with the extent of performance under the contracts. In the normal course of business, the companies do not bill or receive compensation under the contracts in advance of performance. Accordingly, the amounts included in the accompanying consolidated balance sheet as "Billings in Excess of Costs on Uncompleted Contracts" generally do not represent a liability for future performance. Rather, they consist principally of the accumulated estimated gross profit on the related uncompleted contracts to date of billing which, under the companies' method of accounting, will not be recognized as income until the contracts are completed; "Billings in Excess of Costs on Uncompleted Contracts" neither includes nor represents the estimated gross profit on all uncompleted contracts in process. Based upon current tax rates, Federal income taxes applicable to "Billings in Excess of Costs on Uncompleted Contracts" would be approximately $21,000,000 at September 30, 1976 and $19,100,000 at September 30, 1975.

Depreciation

Depreciation is provided at rates based upon estimated useful service lives (ten to fifty years for buildings and two to fifteen years for equipment) using the straight-line and accelerated methods for buildings and improvements thereon and for equipment. Improvements on leased property are amortized on the straight-line method over the terms of the leases.

Maintenance and repairs are charged to operations; betterments are capitalized. The cost of property sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the property and related accumulated depreciation accounts, and any resulting gain or loss is credited or charged to income.

Construction Joint Ventures

The companies have entered into various joint venture agreements with varying participations. Such joint ventures generally follow the completed contract method of reporting income from contracts. The companies' share of joint venture revenues included in the statement of consolidated income amounted to approximately $37,900,000 and $57,200,000 for 1976 and 1975, respectively.

Net Income per Share of Common Stock

Net income per share of common stock, assuming no dilution, is computed by dividing net income by the weighted average shares outstanding during the year. The effect of dilutive stock options on the computation is insignificant.

Net income per share of common stock, assuming full dilution, gives effect to the conversion of outstanding convertible debentures (after elimination of related interest expense, net of income tax effect) and exercise of dilutive stock options.

PERINI CORPORATION

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Perini Corporation and its subsidiaries. All subsidiaries are wholly-owned except Majestic Wiley Contractors Limited which is approximately 74% owned. All significant intercompany transactions and balances have been eliminated in consolidation. Joint ventures are accounted for on the equity method with the Company's share of revenue and cost of joint ventures included in the consolidated statement of income.

(b) Translation of Foreign Currencies

Monetary assets and liabilities of subsidiaries outside the United States have been translated at year-end exchange rates. All other balance sheet items have been translated at historical rates. Income and expense amounts (except for depreciation which has been translated at historical rates) have been translated at average rates prevailing during the year. Translation gains and losses are reflected in earnings currently.

(c) Methods of Accounting for Contracts

Profits from construction contracts and construction joint ventures are recognized by applying percentages-of-completion for each year to the total estimated profit for the respective contracts. The percentage-of-completion is determined by relating the actual cost of work performed to date to the current estimated total cost of the respective contracts. When the estimate on a contract indicates a loss, the Company's policy is to record the entire loss. Income from claims is recorded in the years such claims are resolved. Unbilled work represents the excess of contract costs and profit recognized to date on the percentage-of-completion accounting method over billings to date on certain contracts. Deferred contract revenue represents the excess of billings to date over the amount of contract costs and profit recognized to date on the percentage-of-completion accounting method on the remaining contracts.

In accordance with normal practice in the construction industry, the Company includes in current assets and liabilities amounts relating to construction contracts realizable and payable over a period in excess of one year.

(d) Methods of Accounting for Real Estate Operations

Revenue from sales of land is not recorded until the buyer has a significant and continuing cash equity in the property. Furthermore, all sales with terms in excess of one year must bear interest at a rate at least equal to the prevailing borrowing rate at the time of the sale. The gross profit recognized on sales of land is determined by relating the estimated total land and land development costs of each development area to the estimated total sales value of land in that development.

If the estimated costs exceed the estimated total sales value of land in a development, provision is made to reduce the carrying value of the land by the amount of this excess.

Real estate taxes and interest expense applicable to land held for sale or development (including condominiums during the construction phase) are generally capitalized as part of the "Land Development Costs" or "Condominiums Under Construction or Contracted for Sale." If the Company had followed the policy of expensing all interest as incurred, the impact on net income would not have been material in either 1976 or 1975.

Sales of condominium units are recorded at the time title passes to the purchaser, at which time the Company realizes the sales price in full.

(e) Depreciable Property and Equipment

Land, buildings and improvements, construction equipment, and other equipment are recorded in the accounts of the Company at cost. Additions and improvements are capitalized. Ordinary maintenance and repair expenses are charged to income as incurred. The cost of depreciable property retired or sold is removed from the property accounts, and the accumulated depreciation thereon is charged to the reserve for depreciation. Profit or loss applicable to sales of property is recorded in the income accounts.

Depreciation is provided primarily by the declining balance method for construction equipment and primarily on the straight-line method for the remaining depreciable property over the following estimated useful service lives:

Buildings and improvements	10-33 years
Construction equipment	3-10 years
Other equipment	3-10 years

(f) Goodwill

Costs of investment in subsidiaries in excess of fair value at date of acquisition (goodwill) is primarily being amortized over a period of 40 years on the straight-line basis.

(g) Income Taxes and Investment Credit

The provision for income taxes recognizes the tax effects of all income and expense transactions included in each year's statement of income regardless of the year the transactions are reported for tax purposes.

It is the policy of the Company to accrue appropriate withholding taxes on earnings of foreign subsidiaries which are intended to be remitted to the parent Company. Unremitted earnings of foreign subsidiaries which have been, or are intended to be, permanently reinvested and on which no such taxes have been accrued aggregated $14,000,000 at December 31, 1976.

The investment tax credit on certain depreciable assets has been deferred and is being reported in income over the estimated productive lives of the related assets. The Company's portion of investment tax credit from joint ventures is recorded as realized.

(h) Earnings per Share

Computations of earnings per share amounts are based on the weighted average number of common shares outstanding during the respective periods. The additional number of shares issuable upon the exercise of stock options has not been included, since the effect would be either immaterial or antidilutive.

(i) Reclassifications

Certain of the amounts previously reported in the consolidated financial statements for the year ended December 31, 1975 have been reclassified to conform with the 1976 classifications.

TURNER CONSTRUCTION COMPANY

Statement of Accounting Policies

Consolidation: The financial statements include the accounts of the company and its wholly-owned subsidiaries, except for the accounts of one subsidiary, the assets of which have been contracted for sale. The company carries its investment in this subsidiary at cost which approximates net realizable value.

Long-Term Construction Contracts: The company determines construction earnings under the percentage of completion method. Under this method, the company recognizes as profits that proportion of the total profit anticipated from the contract which the value of the work completed bears to the estimated total value of the work covered by the contract. As the company's construction contracts generally extend over more than one year, revisions in costs and profit estimates during the course of the work are reflected in the year in which the facts which require the revision become known. Where a loss is forecast for a contract, the full amount of the anticipated loss is recognized in the year in which it is determined that a loss will occur.

Construction earnings for certain contracts are reported on the completed contract basis for tax purposes.

Under certain contracts, owners of buildings make payments directly to suppliers and subcontractors for all or for portions of work covered by the contract. The company considers such costs in determining contract percentage of completion and reports such amounts in value of construction completed.

Construction Joint Ventures: The company's investment in construction joint ventures is stated at equity representing its share in the unremitted earnings of the ventures. The earnings of construction joint venture operations are reported on the percentage of completion basis in the financial statements and generally on the completed contract basis for tax purposes.

Depreciation, Amortization and Investment Credit: The company uses the sum-of-the-year-digits method for computing depreciation on property, plant and equipment. Leasehold improvements are being amortized on a straight-line basis over the lives of the leases which are less than the lives of the improvements. The investment credit is accounted for as a reduction of the provision for federal income taxes in the year in which the credit arises.

Condominium Development: Sales of condominium apartments are recognized at closing. Cost of apartments sold is determined on the basis of the ratio of estimated total costs (including capitalized interest) of the project to estimated total selling price. Inventory of condominium apartments represents costs incurred allocated to unsold apartments not in excess of net realizable value.

SAM P. WALLACE COMPANY, INC.
Accounting Policies:

Consolidation Principles

The consolidated financial statements include all of the Company's subsidiaries after elimination of significant intercompany transactions.

Joint Ventures

The Company's interest in joint ventures and 50% owned companies is included in the various captions of the Consolidated Statement of Operations. These investments are recorded at cost plus the Company's proportionate share of undistributed net earnings. The Company's investment in joint ventures is included in other current assets. Net income for 1976 includes $206,000 from sale of a joint venture interest.

Construction Contracts

The Company reports income from long term construction contracts using percentage of completion accounting. Contracts of a short duration are reported using the completed contract method. Provisions for losses on contracts in progress are made in the period in which they become known.

The Company's policy is to record contract claims when agreement with the customer has been reached. Settlements were not material.

Inventories

Inventories are priced substantially at the lower of average cost or market.

Depreciation and Amortization

Substantially all depreciation is computed on a straight-line basis over the estimated useful life of the property. Rates used are 5% to 33⅓%.

Expenditures for maintenance and repairs are charged to expense as incurred. Costs of major renewals and betterments are capitalized and depreciated at the applicable rates. Retirements are removed from the asset account and charged to the related depreciation reserve, net of salvage.

Investments in subsidiaries over underlying net assets acquired are not amortized.

Income Taxes

Income from construction contracts is reported for tax purposes using the completed contract method with a liability provided for income taxes which will be due in future periods when the contracts are completed. During 1977, the deferred income tax liability is projected to be reduced approximately $1,200,000, and cash disbursements for income taxes could exceed the 1977 tax provision.

A U.S. tax liability is not accrued for earnings of foreign operations which are expected to be reinvested in foreign subsidiaries; provision for U.S. tax on such earnings is not material. Income tax expense is less than the U.S. rate because foreign earnings are taxed at a lower rate.

DATA PROCESSING COMPANIES

APPLIED DATA RESEARCH, INC.
Notes to Consolidated Financial Statements

Significant Accounting Policies

Basis of Consolidation—The consolidated financial statements include the accounts of Applied Data Research, Inc. and its subsidiaries, all of which are wholly-owned. All significant inter-company accounts and transactions have been eliminated.

Depreciation—Depreciation is generally computed on a straight-line basis. Depreciation rates are based on the estimated useful lives of properties which are 3 to 8 years for computer equipment and 8 years for furniture, fixtures, and other equipment. Leasehold improvements are amortized over the term of the lease or the life of the asset, whichever is shorter.

Recognition of Operating Revenues—A summary of revenue recognition is as follows:

Proprietary Software Products—proprietary software products are generally marketed to customers under permanent license arrangements. The aggregate amounts of license payments, less interest, are recognized as revenue upon billing to the customer. Deferred interest applied against such accounts receivable amounted to $269,070 in 1976 and $215,460 in 1975.

Proprietary hardward/software products—proprietary hardware/software products are marketed to customers under license arrangements varying from one to five years or as a direct sale. License arrangements less than four years are treated as operating leases and accordingly, revenue is recognized ratably over the period of the lease. For those products which are licensed for periods of four years or more and direct sales, revenue is recognized upon shipment to the customer and is comprised of the aggregate amounts of license payments, less interest. Deferred interest applied against such accounts receivable amounted to $413,271 in 1976 and $434,856 in 1975.

Professional services—revenue from professional service activities is primarily derived from long-term contracts comprising of cost plus fixed-fee, time and material, and fixed-price contracts. Revenue under cost plus fixed-fee, and time and material contracts is recognized as costs are incurred and includes estimated earned fees in the proportion that costs to date bear to total estimated costs. Revenue under fixed-price contracts in process is recognized under the percentage of completion method. Anticipated losses on professional service contracts are provided when losses become known.

Earnings per Common Share—Earnings per common and common equivalent share are based on the weighted average number of shares outstanding and equivalent shares from dilutive stock options. Earnings per common share assuming full dilution are computed by assuming the conversion of convertible debentures at the beginning of the year, with appropriate adjustment to earnings for interest on the debentures after related income tax effect and the assumption of the exercise of outstanding stock options under the treasury stock method.

Income Taxes—Deferred taxes are provided for all items included in the statements of earnings regardless of when such items are reported for tax purposes. Investment credits are recorded under the flow-through method.

COMPUTER SCIENCES CORPORATION
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

Nature of Business and Method of Reporting

The Company is engaged in the planning, design, engineering, development, implementation and operation of computer systems and computer-related communications systems, and in the operation of a proprietary remote data processing service called INFONET. A major portion of the Company's business is performed under contracts with numerous departments and agencies of governmental entities: Federal, state, local and foreign. For the year ended April 1, 1977, revenues from these sources represented 83% of total revenues, and related receivables at that date represented 79% of total receivables.

The Company reports its operations on a line-of-business method wherein revenues, expenses and operating income—before corporate general and administrative expenses, interest and taxes—are reflected for the Company's two major areas of operations. Operating results related to the INFONET remote data processing service are reported as such, and all other (including computer leasing) are reported as Contract Services.

Principles of Consolidation

The accompanying financial statements consolidate the accounts of the Company and its subsidiaries. All intercompany and interdivisional transactions have been eliminated, except for INFONET revenues from other divisions and subsidiaries, which remain as recorded by INFONET, and which are immaterial in amount.

The excess of cost of businesses acquired over related net assets includes the following:

- An amount of $1,586,000 related to a 1965 purchase, which will not be amortized as long as this asset has value.
- An amount of $2,579,000 related to the acquisition as of April 1, 1977 of an aggregate 83% interest in Computer Sciences Canada, Ltd., which will be amortized over 40 years. The Company previously held a 49% interest in that company and accounted for its results of operations on the equity method.

- An amount of $1,507,000 representing excess of the minority interest share in the accumulated deficit of Computer Sciences Canada, Ltd. over the minority interest investment. This amount will be reduced by the minority interest share of that company's future profits.
- An amount aggregating $105,000 applicable to other acquisitions, which is being amortized over 40 years.

Income Recognition

The Company provides contract services under fixed price, cost-based, and time and materials contracts. On fixed price contracts, income is recorded on the basis of the estimated percentage of completion of services rendered. On cost-based contracts, income is recorded by applying an estimated factor to costs as incurred, such factor being determined by the contract provision and/or prior experience. On time and materials contracts, income is recorded as the costs are incurred, being the difference between such costs and the agreed-upon billing amounts. Reimbursable costs are included in both revenues and expenses. Revenues from leasing activities are recorded on the operating method. Revenues of INFONET operations are recorded at the time the service is utilized by the customer.

Depreciation and Amortization

Except for computer equipment held for or under lease (Note 4), the cost of property and equipment is depreciated from the dates of installation on the straight-line method, as follows:

Buildings—	
Structures	40 years
Improvements	5 to 10 years
Computers and related equipment—	
INFONET operations	Period ending March 28, 1980
Other operations	5 to 10 years
Communications equipment—	
Items owned at April 1, 1977	Period ending April 2, 1982
Subsequent additions	5 years
Furniture and office equipment	3 to 10 years
Leasehold improvements	Shorter of lease or useful life

Expenditures for repairs and maintenance are charged to expense. Costs and related accumulated depreciation of properties sold or otherwise retired have been eliminated from the accounts and the gains or losses on disposition are included in results of operations.

Investment in Unconsolidated Affiliates

Investments in affiliated companies in which ownership is 20% or more are carried at the Company's equity in the underlying net assets of such companies. Investments in less-than-20%-owned affiliates are carried at cost or estimated net realizable amounts, whichever is lower.

Development Costs

The Company incurs costs from time to time in connection with the development and start-up of proprietary programs and systems. All such costs are charged to expense in the year incurred.

Investment Tax Credits

It was previously the Company's policy to recognize for financial statement purposes the full amount of investment tax credit on qualified purchases and leases of equipment as a credit against Federal taxes on income in the year the credits are utilized for tax purposes. Effective April 3, 1976, the Company changed its accounting method, and obtained approval for same from the U.S. Treasury Department, to provide for amortization of such credits over the lives of the related assets, beginning with the period in which the credits are expected to be utilized for tax purposes (Note 3).

Translation of Foreign Currencies

Monetary assets and liabilities are translated quarterly at appropriate rates of exchange. Capital assets and related depreciation are translated at rates of exchange prevailing at dates of acquisition. Operating items, except depreciation, are translated at a weighted average rate for the period. Exchange adjustments arising during fiscal years 1976 and 1977 were not material, and are reflected currently in net earnings.

Pension Plan

The Company funds pension costs accrued on the unit credit method through both Company and employee contributions. The Company's portion of the expense was $479,000 for 1977 and $511,000 for 1976. At April 1, 1977, the total of the pension fund assets and the pension liability accrued by the Company exceeded the actuarially computed value of the accrued benefits. The Company believes that its pension plan is being administered in conformance with the Pension Reform Act of 1974. The plan was formally amended in accordance with the timetable and provisions of the Act during the year ended April 1, 1977, and was submitted for qualification to the Internal Revenue Service.

Earnings per Share

Earnings per share are computed on the basis of the weighted average number of shares outstanding during each year. No effect has been given in the computation of earnings per share to common stock equivalents as the dilution is not material.

MDC CORPORATION
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:
   a. Principles of Consolidation—The consolidated financial statements include the accounts of the Company and all subsidiaries. All material intercompany balances and transactions are eliminated in consolidation.
   b. Accounting for Leases—Leases which provide for full recovery of investment over the initial lease term are accounted for by the finance method. Unearned income represents the excess of aggregate future rentals and guaranteed purchase options over the cost of the equipment, and is taken into income by the sum-of-the-months' digits method. At the inception of a finance lease, direct acquisition expenses, if any, are charged to unearned income. The Company has an interest in the residual value of certain leveraged lease transactions which were arranged for others. The income associated with these residuals, if any, will be recorded when realized. Leases which do not provide for full recovery of investment over the initial lease term are accounted for by the operating method.
   c. Computer Rental Equipment—Computer rental equipment is depreciated over its estimated useful life by the straight-line method after allowing for a 10% salvage value, but depreciation is reduced to the extent of the operating loss of the computer portfolio, which is applied against the allowance for losses. Repairs and maintenance of the equipment are the responsibility of the lessees. Upon disposition, the cost of the equipment and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is applied to the allowance for losses.
   d. Income Taxes—The Company and its subsidiaries file a consolidated federal income tax return. Deferred income taxes have been provided to recognize differences between financial statement and tax reporting, primarily for depreciation and finance lease income. Investment tax credits are accounted for by the flow-through method.

EDUCATION SERVICES

NATIONAL SYSTEMS CORPORATION
Notes to Consolidated Financial Statements

Note 1—Summary of Accounting Policies:

Revenue and Costs

Home Study Contracts

Revenues are deferred and recognized as income when cash is received, but only to the extent such cash can be retained by the Company. Generally, the Company follows the guidelines of the National Home Study Council in determining retention rights.

Promotional literature costs are amortized on a declining-balance basis over 12 months.

Resident Schools

Revenues are recorded ratably over the terms of the courses, which range from three months to eighteen months, except for certain short-term courses where the first month's revenue is incrementally higher to provide for related selling costs incurred and expensed prior to the student's matriculation.

Course service costs are charged to expense as incurred. In 1975 the Company began to provide support services such as food and housing under contract to certain resident students. The cost portion of deferred tuition income related to support services is classified as estimated costs to service contracts. Advertising costs and salesmen's commissions are charged to expense within 12 months of the student's enrollment date.

Contracts Receivable

Resident school contracts receivable, which are collectable beyond one year or the term of the course (operating cycle), whichever is greater, are classified as long term.

Inventories

Inventories, which consist primarily of finished course materials, are stated at the lower of cost (first-in, first-out method) or market.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost and are depreciated principally using the straight-line method over the estimated useful lives of the various classes of property, which range from 5 years on certain equipment to 45 years for certain buildings (Note 4).

The Company capitalizes expenditures for betterments and major renewals. Ordinary maintenance and repairs are charged to operations as incurred. The cost of assets sold, retired or abandoned and the related amounts of accumulated depreciation and amortization are eliminated from the accounts in the year of retirement.

Intangible Assets

Intangible assets consist primarily of excess of cost of subsidiaries over net assets acquired. Substantially all intangible assets are being amortized ratably over periods ranging from 15 to 40 years. Amortization expense amounted to $57,000 (1976) and $32,000 (1975).

Course research and development costs are expensed as incurred and amounted to $116,000 (1976) and $122,000 (1975).

Incentive Compensation Plan

In 1976 the Company adopted an incentive compensation plan for key management employees which is based upon the profitability of the Company. The 1976 income statement includes a charge of $264,000 under this Plan.

Earnings per Share

Earnings per share are computed using the weighted average number of shares outstanding of 1,492,029 (1976) and 1,478,814 (1975). Dilutive stock options are not material, and therefore have no effect on earnings per share.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all wholly-owned subsidiaries. All significant intercompany profits, transactions and balances have been eliminated.

ELECTRIC AND GAS COMPANIES

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Notes to Financial Statements

Note A—Summary of Significant Accounting Policies

The Company is subject to regulation by the New York Public Service Commission (PSC) and the Federal Power Commission (FPC) with respect to its rates and accounting. The Company's accounting policies conform to generally accepted accounting principles, as applied in the case of regulated public utilities, and are in accordance with the accounting requirements and rate-making practices of the regulatory authorities having jurisdiction. A description of the Company's significant accounting policies follows.

Utility Plant and Depreciation

The capitalized cost of additions to utility plant includes charges for indirect costs such as engineering, supervision, payroll taxes and pension benefits, and an allowance for funds used during construction. The original cost of property, together with removal cost, less salvage, is charged to accumulated depreciation as property is retired. The cost of current repairs and maintenance is charged to expense, while the cost of betterments is capitalized.

The annual charge for depreciation is computed on the straight-line method for financial statement purposes, using rates (2.5 per cent for 1976 and 1975) based on the average service lives and net salvage of properties. Depreciation charges include amortization ($4,742,000 in 1976 and $3,780,000 in 1975) of the net unrecovered cost of extraordinary retirements of certain plant facilities being amortized through 1978.

The allowance for funds used during construction was computed at an annual rate of 9.0 per cent for the first half of 1975, and thereafter at 8.5 per cent, in both cases compounded monthly. Such rates included the cost of borrowed funds used for construction purposes and a reasonable rate on the Company's own funds when so used.

Nuclear fuel assemblies and components include the cost of fabrication and overhead costs associated with the procurement and manufacture of nuclear fuel. Such cost is amortized to operating expenses based on the quantity of heat produced for the generation of electricity.

Leases

All of the Company's lease agreements are treated as operating leases for accounting and rate-making purposes.

Revenues

Revenues are recognized on a monthly cycle billing basis. The Company does not accrue revenues for energy delivered after the cycle billing date.

The Company's tariffs include a fuel rider under which fuel costs above or below the levels included in base rates are billed or credited to customers approximately 40 days after the costs are incurred. Fuel rider revenues are not recorded until billed.

Commencing in late 1976 the Company's electric tariffs include a transfer adjustment clause under which customers are billed for net revenue deficiencies resulting from the transfer of certain customers to the Power Authority of the State of New York (PASNY). Such revenues are accrued currently and billed to customers approximately 60 days later.

Recoverable Fuel Costs

Fuel costs which are recoverable under the Company's electric and steam fuel riders are deferred until the period in which they are billed to customers. With respect to gas service, the excess or deficiency of the fuel rider is accumulated for refund or surcharge to customers on an annual basis and recorded in other deferred credits or charges.

In recent decisions by the PSC, the Company was allowed to recover in its electric and steam rates certain portions of its deferred recoverable fuel costs which were affected by a shortening of the billing lag period and an increase in the base cost of fuel. Based on these and other decisions of the PSC, the Company believes that all remaining deferred recoverable fuel costs would be allowed in future billings, should there be any further revision in tariffs affecting these items.

Federal Income Tax

The Company provides for deferred federal income taxes with respect to benefits realized from the class life system of depreciation permitted under the Revenue Act of 1971, deferred fuel accounting and certain other specific items, when approved by the PSC. In making such provisions the Company does not anticipate the benefits of unrealized investment tax credits. The Company defers the benefits of all investment tax credits realized under the Revenue Acts of 1971 and 1975.

For rate-making purposes, accumulated deferred federal income taxes are deducted from rate base and amortized or otherwise applied as a reduction (or increase) in federal income tax expense in future years. Accumulated deferred investment tax credits are amortized ratably over the lives of the related properties.

Tax reductions resulting from accelerated depreciation are accounted for as current reductions in federal income tax provisions. Similarly, no provision for deferred federal income taxes is made for other differences (principally interest, pensions and taxes charged to construction) between income for financial statement purposes and for federal income tax purposes.

Pension Plan

The cost of the pension plan is an amount irrevocably contributed to pension trust funds which provides for current costs and amortization over 40 years of unfunded prior service costs.

Research and Development Costs

Research and development costs relating to specific construction projects and to certain projects in advance of construction are capitalized. All other such costs are charged to operating expenses as incurred. For 1976 and 1975 the amounts charged to construction were $3,585,000 and $4,201,000 respectively, and the amounts charged to operations were $12,433,000 and $7,765,000 respectively. The $4,201,000 does not include certain amounts originally charged to construction and subsequently reimbursed by PASNY.

HOUSTON NATURAL GAS CORPORATION
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of all domestic and Canadian subsidiaries. Unconsolidated foreign subsidiaries and companies owned 50% or less are carried at cost plus HNG's proportionate share of undistributed earnings since the dates of acquisition or incorporation.

Translation of Currencies. The accounts of foreign subsidiaries are translated as follows: current assets, current liabilities and long-term debt are translated at the rate of exchange in effect at the end of the period; other assets and liabilities at the exchange rates prevailing when acquired or incurred; sales, cost of sales and expenses at the average exchange rates during the period except depreciation and amortization charges which are translated at the rates prevailing when the related assets were acquired. Translation gains and losses (which have been immaterial) are included in income.

Inventories. Inventories are stated at the lower of cost (principally on a first-in, first-out basis except materials and supplies and natural gas in underground storage, which are at average cost) or market.

Property, Depreciation, Depletion and Amortization. Maintenance and repairs of property and replacements and renewals of items deemed to be less than units of property are charged to operations. Additions and betterments are added to property accounts at cost. Units of property, plant and equipment retired or replaced are removed from the property accounts at cost; such amounts plus removal expenses, less salvage, are charged to accumulated depreciation, depletion and amortization, except that, in the case of retirements of industrial gases and coal properties, transportation equipment and abnormal retirements of other property units, the accumulated depreciation, depletion or amortization applicable thereto is charged to the accumulated provision accounts, and the gain or loss on retirement is included in income.

Interest incurred during construction of utility and major nonutility projects is capitalized and amortized over the productive life of the related facilities.

The "full cost" method of accounting is used for oil and gas properties. Under this method of accounting, the cost of developed and undeveloped properties as well as those costs incidental to the acquisition, exploration and development of such properties are capitalized. Such costs will be expensed as incurred if the net undepleted balance of such costs equals or exceeds the value of all estimated oil and gas reserves.

Depreciation and depletion of oil and gas properties are computed on the unit-of-production method based upon the estimated reserves underlying all oil and gas properties.

Depletion of coal properties is computed on the unit-of-production method based upon the applicable estimated recoverable reserves.

Mine development costs are capitalized and amortized by the straight-line method over the mine's expected life.

Depreciation and amortization of other property, plant and equipment are computed by the straight-line method over the expected life of the asset.

Income Taxes. Deferred income taxes are recognized on timing differences for income and expense items which are reported for tax purposes in different years than for financial purposes. Investment and foreign tax credits are applied on the flow-through basis.

Reclassifications. Certain reclassifications have been made in the 1975 amounts to conform with 1976 classifications. (See Financial Review—Consolidated Balance Sheet Presentation, Page 21 for the change in the Consolidated Balance Sheet format.)

LONG ISLAND LIGHTING COMPANY
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies:

The accounting records of the Company are maintained in accordance with the Uniform Systems of Accounts prescribed by the Public Service Commission of the State of New York (PSC) and the Federal Power Commission (FPC).

Utility Plant: Additions to and replacements of utility plant are recorded at original cost, which includes material, labor, overheads and an allowance for the cost of funds used during construction (AFC). The cost of property renewals and betterments relating to units of property is added to utility plant. The cost of property replaced, retired or otherwise disposed of is deducted from utility plant and, generally, together with dismantling costs less any salvage, is charged to accumulated depreciation except for certain gas plant retirements with respect to which the PSC has approved a plan of amortization. The cost of repairs, minor renewals, and removal of certain minor facilities is charged to maintenance expense. Mass properties (such as poles, wire and meters) are accounted for on an average unit cost basis by year of installation.

Allowance for Funds Used During Construction (AFC): The Uniform Systems of Accounts define AFC as the net cost of borrowed funds for construction purposes and a reasonable rate upon the utility's other funds when so used. AFC is computed monthly on that portion of construction work in progress (CWIP) which is not included in the Company's rate base. The average annual AFC rate was 9.25% and 8.9% in 1976 and 1975, respectively. With PSC permission, the Company compounds AFC and in June 1976 it began computing AFC on its Shoreham Unit at a reduced rate of 7.34%, which reflects the income tax effect of the interest portion of AFC. Based upon an average of the Company's capitalization, and upon the most current costs of long-term debt (without adjustment for income taxes, except with respect to the Shoreham Unit) and preferred stock in each of the years, the portion of AFC attributable to funds provided by common stock equity was equivalent to 17% and 14% of Income for Common Stock for 1976 and 1975, respectively.

Depreciation: The provisions for depreciation shown in the financial statements result from the application of straight-line rates to the original cost, by groups, of depreciable properties in service. The rates are determined by annual age-life studies of depreciable properties. Total depreciation accruals were equivalent to 3% of average depreciable plant cost for 1976 and 1975.

Revenues: Revenues are recorded when billed. Billings are rendered on a monthly or bi-monthly cycle basis. The Company accrues estimated revenues for customers billed bi-monthly in the month in which they normally are not billed.

The Company's tariffs for electric service include a fuel adjustment clause under which electric rates charged to most customers are adjusted to reflect changes in the average cost of fuels and of certain purchased power costs. The Company's tariffs for gas service contain a comparable clause.

Deferred Electric Fuel Cost Adjustment: The electric fuel cost adjustment represents the difference between actual fuel costs and the fuel costs allowed in the Company's base tariff rates. The Company, to achieve a proper matching of costs and revenues, defers this difference along with the related income tax effects to those future periods in which it will be billed to customers.

In a recent rate proceeding, the PSC permitted the Company recovery of deferred fuel costs when new electric rate schedules were adopted, effective June 9, 1976. Accordingly, the Company will recover approximately $9,800,000 of previously deferred fuel cost over a period of forty-eight months, which began in June 1976. The Company believes that the PSC will continue to permit it to recover its deferred fuel costs.

Federal Income Taxes: An accelerated depreciation method, together with depreciation lives which are shorter than those referred to under Depreciation, are used for income tax purposes. Interest, pensions, taxes, research and development costs, etc., which are charged to plant or accumulated depreciation in the financial statements, are deducted currently where permitted by the tax laws. AFC is not subject to income tax. Property taxes are deducted on a lien date basis, in contrast to the fiscal year basis used for financial statements. For these and similar reasons, taxable income is less than financial statement income.

The Company's general policy is to reflect as income tax expense the amount of income taxes currently payable; however, in certain cases provision is made for income tax effects of the differences between net income before income taxes and taxable income as disclosed in Note 5.

Income tax benefits resulting from reduced depreciation lives permitted by the Revenue Act of 1971 and additional investment tax credit resulting from the Tax Reduction Act of 1975 are deferred and amortized on a straight-line basis over the lives of the related properties.

One-half of the investment tax credits received under the Revenue Act of 1971 and, effective June, 1976, the imputed income tax benefits resulting from the interest component of Shoreham AFC have been allocated to Other Income and Deductions.

Research and Development Costs: Research and development costs of approximately $700,000 in 1976, and $1,200,000 in 1975, related to construction projects were capitalized. Other research and development costs (approximately $3,400,000 in 1976 and $2,500,000 in 1975) were charged to expense. The Company's research and development programs are subject to PSC review.

Capitalization—Premiums, Discounts and Expenses: Premiums or discounts and expenses related to the issuance of bonds are amortized over the lives of the respective issues. Capital stock expense is not amortized.

Reserves for Claims and Damages: The Reserves for Claims and Damages consist of reserves for self-insured losses arising from claims against the Company, from extraordinary storm losses and from certain equipment damage. Provisions to the reserve are based upon experience, risk of loss and/or as specifically ordered by the PSC.

FINANCE—BANKS AND RELATED FUNCTION

THE BANK OF NEW YORK COMPANY, INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting and Reporting Policies

The accounting and reporting policies of the Company, a bank holding company, and its subsidiary conform with generally accepted accounting principles and with general practice within the banking industry. The following is a summary of the more significant of such policies.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, The Bank of New York. In consolidation, all inter-company accounts and transactions are eliminated.

Securities (See Note 3)

Bond investments, which are generally held to maturity, are stated at cost, plus discount accrued and less premium amortized. Equity investments and trading account securities are stated at the lower of cost or market value.

Gains and losses on the sale of investment securities represent the difference between net proceeds and carrying value, determined generally on the specific identification method. Interest earned and gains and losses on the sale of trading account securities are included in Other Operating Income.

Reserve for Loan Losses (See Note 5)

The reserve for loan losses is established through charges to earnings in the form of a provision for loan losses. Loans which are determined to be uncollectible are charged against this reserve and subsequent recoveries, if any, are credited to the reserve. The amount charged to earnings is based on several factors which include, but are not limited to, analytical reviews of loan loss experience in relation to outstanding loans; a continuing review of problem loans and overall portfolio quality; regular examinations and appraisals of loan portfolios conducted by the Bank's examination staff and supervisory authorities; and management's judgment with respect to current and expected economic conditions and their impact on the existing loan portfolio.

Bank Premises and Equipment (See Note 6)

Bank premises and equipment are stated at cost less accumulated depreciation.

Leasehold improvements are amortized over the lives of the respective leases or the estimated useful lives of the improvements, whichever are the shorter periods.

Depreciation and amortization included in Operating Expenses are computed principally on the straight-line method.

Maintenance, repairs and minor improvements are charged to Operating Expenses as incurred. The related cost and accumulated depreciation and amortization are removed from the accounts at the time an asset is retired or otherwise disposed of, and any gain or loss resulting therefrom is recognized in income currently.

Income Taxes (See Note 11)

The tax effects of transactions are recognized in the same periods as the related items of income and expense are reported for financial statement purposes regardless of the period in which such items are recognized for tax purposes. The resulting difference between the tax provision shown in the financial statements and the amount of taxes currently payable constitutes deferred income taxes and is included in Accrued Taxes and Other Expenses.

The tax savings resulting from investment tax credits are deferred and amortized to income over the estimated useful lives of the related assets, both with regard to property purchased for the Company's use and property leased to others.

Per-Share Data

Per-share amounts are computed on the basis of both the average number of shares outstanding and the number of shares that would have been outstanding if all of the convertible debentures outstanding in each year had been converted as of the beginning of such year.

In computing per-share amounts, assuming full conversion of the debentures, the reported income before securities transactions and net income are increased by the debenture interest expense (net of tax effect).

The Company's outstanding stock options are disregarded in computing all per-share amounts since their inclusion would be immaterial.

Employee Retirement Plan (See Note 12)

The Company and its subsidiary have a retirement plan covering all eligible employees. The provision for retirement plan costs includes normal service costs, as computed under accepted actuarial cost methods and assumptions, plus amortization of unfunded prior service costs over 30 years. The Company's policy is to fund amounts equal to accrued retirement plan costs.

Other

Amounts due under lease financing arrangements are included in Other Assets and income on such transactions is included in Other Operating Income.

Property held in a fiduciary or agency capacity for customers is not included in the Consolidated Statement of Condition since such items are not assets of the Company.

The Company and its subsidiary are on an accrual basis of accounting except for fees earned in a fiduciary or agency capacity and certain minor sources of income and expense which are recognized when payment is received or made.

DETROITBANK CORPORATION
Notes to Consolidated Financial Statements

Note 1—Accounting Policies

Significant accounting and reporting policies of the Corporation and its wholly-owned subsidiaries are described in the following paragraphs:

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions are eliminated. Accounts of foreign offices, which are not material in relation to the overall financial statements, are converted into U. S. dollars at current rates of exchange.

Securities

Investment securities are stated at cost, adjusted for amortization of premium and accretion of discount. Trading securities are carried at market.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation, computed on the straight-line and accelerated methods, is charged to operations over the estimated useful life of the property. Leasehold improvements are amortized over the terms of respective leases or the estimated useful lives of the improvements, whichever is shorter.

Income Taxes

The provision for income taxes is based on income reported in the financial statements. Deferred income taxes are provided on income and expense items reported in different years for tax purposes. Investment tax credits (which have not been material) arising from the purchase of qualified assets are deferred and amortized as a reduction of the provision over the estimated useful lives of the assets.

Reserve for Loan Losses

Provisions for loan losses charged to operating expenses are based on loan loss experience and such other factors that in management's judgement deserve recognition in determining the adequacy of the reserve.

Retirement Plan

It is the Corporation's policy to fund pension costs as they are accrued.

Other

The Corporation uses the accrual basis of accounting for financial reporting purposes, except for fiduciary fees and certain minor sources of income which are recorded when received. The difference in methods of accounting for these items is not significant.

MARINE MIDLAND BANKS, INC.

Summary of Significant Accounting Policies

The accounting and reporting policies of Marine Midland Banks, Inc. (the Corporation) and its bank and other subsidiaries conform to generally accepted accounting principles and to predominant practice within the banking industry.

Principles of Consolidation

The financial statements of the Corporation are consolidated with those of its banking and all other majority-owned subsidiaries. The financial statements of Marine Midland Bank, a newly formed wholly-owned subsidiary of the Corporation, are consolidated with those of its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated.

Pursuant to approval received from the regulatory agencies, the Corporation merged its ten banking subsidiaries into Marine Midland Bank, effective January 1, 1976.

Foreign Currency Translation

Substantially all assets and liabilities denominated in foreign currencies are translated into U.S. dollars at year-end rates of exchange. Income and expense accounts are translated generally at exchange rates prevailing at the end of each month. All exchange gains and losses are reflected in current operations.

Securities

Securities are held for both investment and trading purposes. Debt securities held for investment are carried at cost, adjusted for amortization of premium and accretion of discount. Equity securities held for investment representing investments of Edge Act subsidiaries, are carried under the equity method or at cost as appropriate except where in the opinion of management there has been a permanent impairment of value, in which case they are carried at a lesser fair value. Marketable equity securities held for investment are carried at the lower of their aggregate cost or market value. Trading securities are carried at market. Adjustments to market value and gains or losses on the sale of securities held in the trading account are recorded in trading account securities other income. Gains or losses on the sale of investment securities are shown separately in the statement of income.

Reserve for Loan Losses

Additions to the reserve for loan losses are made by provisions charged to current operations. The determination of the balance of the reserve is based on evaluation of the loan portfolio, current economic conditions, past loan loss experience and other factors and reflects an amount which, in management's judgment, is adequate to provide for potential losses.

Direct Lease Financing

The financing method of accounting is used to record direct lease financing transactions. The operating method of accounting is used for income tax purposes and the resulting timing difference is reflected in deferred income taxes. Investment tax credits on equipment leased are reflected in income over the term of the lease.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of buildings and related improvements are computed using the straight-line method based on estimated useful lives. Depreciation of equipment is computed using accelerated methods. Gains or losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expenses and betterments are capitalized.

Income Taxes

Certain income and expense items are accounted for in different time periods for financial reporting purposes than for income tax purposes. Provision for deferred taxes is made in recognition of such timing differences. Investment tax credits, other than on equipment leased, are used to reduce applicable income taxes under the flow through method.

Retirement Plan

Retirement costs as actuarially computed are charged to current operations and paid into a trust fund as they accrue. All service costs of the plan are taken into account in the determination of the normal annual contribution.

Income per Common Share

Income per common share before and after security gains and losses is computed by using the daily average number of common shares outstanding during each year. Fully diluted net income per common share assumes conversion of the 5% convertible debentures when issued in May 1968 with appropriate adjustments to net income.

Other

The accrual basis of accounting is followed except for certain fiduciary fees and minor sources of income which are recorded when payment is received. Interest is not accrued on loans which management has designated as non-income producing; interest on such loans is included in income when received.

UNITED STATES TRUST COMPANY OF NEW YORK
Notes to Consolidated Financial Statements

1. Accounting Policies

The accounting policies of the Trust Company conform with generally accepted accounting principles and with general practice within the banking industry.

The following is a summary of the significant policies:

(a) Consolidation—The consolidated financial statements include the accounts of United States Trust Company of New York and its subsidiaries. In consolidation, all intercompany accounts and transactions are eliminated. The accounts of the Trust Company's subsidiaries are not significant to the consolidated financial statements.

(b) Accounting Basis—The Trust Company is on the accrual basis of accounting except for fiduciary and other commissions and certain minor sources of income and expense, which are recorded when payment is received and expenses disbursed. These exceptions, recorded on a cash basis, would not differ materially had they been reported using the accrual basis.

(c) Trust Assets—Property (other than cash deposits) held by the Trust Company in fiduciary or agency capacities for customers is not included in the consolidated statement of condition because such items are not assets of the Trust Company.

(d) Securities—The Trust Company holds securities for investment and not for trading. Investment securities are carried at cost less amortization of bond premium when purchased above par value, and at cost plus accretion of bond discount when purchased below par value.

(e) Reserve for Possible Loan Losses—The reserve for possible loan losses, which is deducted from loans in the accompanying consolidated statement of condition, is a valuation reserve established through charges to income based on loan loss experience over the most recent five years plus an additional amount when management considers it appropriate to ensure the adequacy of the reserve for possible loan losses in meeting present and possible future losses in the loan portfolio. The adequacy of the reserve for possible loan losses is continually reviewed by management, taking into consideration such things as current economic conditions, past loss experience and the risks inherent in the loan portfolio.

(f) Bank Premises and Equipment—Bank premises and equipment are comprised principally of leasehold improvements and also furniture and equipment. These assets are stated at cost less either amortization over the terms of the respective leases (to 1989 or 1995), or depreciation over the lives of the respective assets (2 to 15 years), all on the straight-line method. At December 31, 1976 and 1975, accumulated amortization and depreciation amounted to approximately $5,714,000 and $4,949,000, respectively.

(g) Income Taxes—Provision is made for deferred income taxes with respect to certain items which are recognized for income tax purposes in years other than those in which they are charged or credited to income for financial reporting purposes. The principal items involving such timing differences which result in deferred income taxes in the consolidated financial statements relate to direct lease financing transactions, reserve for possible loan losses, investment securities and state and local taxes.

For financial reporting purposes, investment tax credits, which arise primarily from direct lease financing transactions, are deferred and amortized to income over the terms of the related transactions or the lives of the assets, whereas they are utilized currently for tax purposes.

BENEFICIAL CORPORATION
Notes to Financial Statements

1. Summary of Significant Accounting Principles and Practices

a) Examination of Financial Statements. Audits are made as of June 30 and December 31 by independent Certified Public Accountants.

b) Basis of Consolidation. The financial statements include, after inter-company eliminations, all significant subsidiaries except Western Auto Supply Company and Subsidiaries and Spiegel, Inc. and Subsidiaries, which comprise the Merchandising Division. However, the equity of the Company in the net assets and net income of all subsidiaries is included. Reference is made to the financial statements of the Merchandising Division which appear elsewhere in this report. Certain amounts for prior years have been restated to conform with 1976 classifications.

c) Finance Operations. The financial statements, with the exception of "Revenue—Consumer Finance" and certain operating expenses, are prepared on the accrual basis. The unrecorded asset of finance charges receivable exceeds the unrecorded liability for expenses payable. Such excess and the interperiod change therein are not considered material in relation to the Balance Sheet and Statement of Income respectively.

Unearned finance charges generally are taken into income as earned and collected under the Rule of 78ths method. Income from interest-bearing direct cash loans is taken into income as collected.

Receivables considered uncollectible or to require disproportionate collection costs are charged monthly to the Reserve for Possible Credit Losses, but collection efforts generally are continued.

d) Insurance Operations. Insurance subsidiaries are engaged primarily in credit life, credit accident and health, and casualty insurance.

The financial statements of all insurance subsidiaries are prepared in conformity with Generally Accepted Accounting Principles.

Premiums on credit life and credit accident and health insurance are generally taken into income as earned under the Rule of 78ths. Premiums on casualty insurance are taken into income on the straight-line method.

e) Valuation of Security Investments. Debt securites are carried at amortized cost. Equity securities (all marketable) are carried at market value. The carrying amount of marketable equity securities is adjusted from cost to market value through a valuation allowance, the change in which is not reflected in Net Income but directly in Retained Earnings. (See Note 4.)

f) Translation of Foreign Currencies. Assets, including immaterial amounts of fixed assets and related accumulated depreciation and amortization, and liabilities in foreign currencies (principally Canadian) are translated to U.S. dollar equivalents at the market rates at each Balance Sheet date. Translation of foreign operating results is at the average market rates for each period covered by the Statement of Income. The net gain or loss is credited or charged to income.

GENERAL MOTORS ACCEPTANCE CORPORATION
Notes to Financial Statements

Note 1. Significant Accounting Policies

Consolidation Practices: The consolidated financial statements include the accounts of GMAC and all wholly-owned domestic and foreign subsidiaries. At December 31, 1975, all subsidiaries were wholly owned. In July 1976, the Company acquired a 51% interest in a Japanese company, Isuzu Motors Finance Co., Ltd.; the investment is accounted for on the equity method. Provisions are made, where applicable, for estimated taxes on dividends which may be paid from undistributed profits of subsidiaries and affiliates.

Unearned Finance Income: In the case of notes receivable in which the face amount includes the finance charge (principally retail financing), earnings are accounted for over the terms of the receivables on the sum-of-the-digits (Rule of 78ths) basis. With respect to notes receivable in which the face amount represents the principal (principally wholesale and interest-bearing lease financing), the interest is taken into income as accrued; unpaid interest accrued at the balance sheet date is included in accounts receivable.

Financing Losses and Loss Provisions: Loss allowances are maintained in amounts considered by management to be appropriate in relation to receivables outstanding at the respective statement dates. Losses sustained are charged either directly to income or, in the case of certain types of losses (principally on non-recourse retail receivables and on foreign receivables), to the related allowance account.

Losses arising from repossession of the collateral supporting doubtful accounts are charged off as soon as disposition of the collateral has been effected and the amount of deficiency has been determined. Where repossession has not been effected, losses are charged off as soon as it is determined that the collateral cannot be repossessed, generally not more than 150 days after default.

Insurance Operations: Insurance premiums are taken into income on a basis related to coverage provided over the terms of the policies (principally pro rata). Commission costs and premium taxes incurred in acquiring new business are deferred and amortized over the terms of the related policies on the same basis as premiums are earned. The liability for unpaid losses and claims includes a provision for unreported losses based on past experience. The estimated salvage and subrogation recoverable on both paid and unpaid losses is recognized at the time the losses are recorded.

MASSEY-FERGUSON FINANCE COMPANY OF CANADA LIMITED
MASSEY-FERGUSON CREDIT CORPORATION AND ITS FINANCE SUBSIDIARY
MASSEY-FERGUSON-PERKINS FINANCE COMPANY LIMITED
PERKINS ENGINES FINANCE COMPANY LIMITED
MASSEY-FERGUSON FINANCE A.G.
MASSEY-FERGUSON FINANCE (AUSTRALIA) LIMITED
SUBSIDIARIES OF MASSEY-FERGUSON LIMITED
Notes to Combined Finance Subsidiaries' Statements

The accounting policies followed by the companies are those that are generally accepted in Canada. They are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements combine the accounts of Massey-Ferguson Finance Company of Canada Limited, Massey-Ferguson Credit Corporation (U.S.A.) and its finance subsidiary, Massey-Ferguson-Perkins Finance Company Limited (U.K.) (formerly Massey-Ferguson Export Finance Company Limited), Perkins Engines Finance Company Limited (U.K.), Massey-Ferguson Finance A.G. (Switzerland), and Massey-Ferguson Finance (Australia) Limited. During the year Massey-Ferguson-Perkins Finance Company Limited purchased the net assets of Perkins Engines Finance Company Limited which is no longer active. Also during 1976 Massey-Ferguson Finance (Australia) Limited was formed and commenced operations.

While the books of the United States finance subsidiaries are maintained, and their tax returns filed, on a modified cash basis of accounting, the accompanying financial statements incorporate adjustments to reflect the financial position of these subsidiaries on an accrual basis of accounting.

(b) Exchange Translation

The statements of finance subsidiaries located outside the United States are translated into U.S. dollars substantially as follows: assets and liabilities at exchange rates prevailing at the end of the year; share capital at rates prevailing at the date of issue; revenue and expenses at average exchange rates during the year. These translation procedures conform in all material respects with the recommendations of the U.S. Financial Accounting Standards Board.

(c) Finance Income

Interest and discounts are generally taken into income in declining amounts over the life of the contract using an effective yield method.

(d) Income Taxes

The companies follow the deferred method of tax allocation in accounting for income taxes.

(e) Classification of Assets and Liabilities

In accordance with industry practice, the assets and liabilities have not been classified as current or non-current.

FINANCE—SAVINGS AND LOAN ASSOCIATIONS

DOWNEY SAVINGS AND LOAN ASSOCIATION

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies which the Association and subsidiaries follow.

Principles of Consolidation

The consolidated financial statements include the accounts of the Association and its wholly owned subsidiaries, DSL Service Company and subsidiary, and Rancho Insurance Agency, Inc. All significant intercompany accounts and transactions have been eliminated. During 1977, the Association plans to discontinue its operation and investment in Rancho Insurance Agency, Inc. at no material gain or loss.

Marketable Securities

Securities are carried at cost, adjusted for amortization of premium and accretion of discount over the term of the security, and it is management's intention to hold them to maturity. Gains or losses on the sale of securities are recognized at the time of sale.

Loan Fees, Discounts and Finance Charges

Loan origination fees in excess of 1% of the loan amount plus $200 for non-construction loans and 2% of the loan amount plus $200 for construction loans are deferred. Deferred fees are amortized into income by use of the straight-line method over seven years for loans originated prior to January 1, 1972 and ten years for loans originated thereafter. Any unamortized fees on loans sold are credited to income in the year such loans are sold.

Discount on loans purchased prior to January 1, 1972 is accreted over a seven-year period and on loans purchased after December 31, 1971 over a ten-year period by use of the straight-line method.

Deferred finance charges on home improvement loans are amortized into income by use of the rule of 78's.

Properties Held for Investment

Certain properties acquired under purchase and leaseback agreements are accounted for using the financing method, which provides for the recognition of leasing income over the period of the lease in amounts that will approximate a level interest income yield on investments (see note 3). Other properties are accounted for using the operating method, which recognizes leasing income over the period of the lease on a straight-line basis.

Other properties held for investment include the capitalized interest on costs incurred during the construction period. The capitalized interest is computed based on the average cost of savings deposits and bank borrowings.

Office Property and Equipment

Office property and equipment are depreciated by use of the straight-line method over the estimated useful lives of the various classes of assets from the respective dates of acquisition. The useful lives used for the principal classes of assets are:

Buildings and improvements	40 to 50 years
Furniture, fixtures and equipment	4 to 10 years
Leasehold improvements	Life of lease

Significant renewals and betterments are charged to the property and equipment account. Maintenance and repairs are charged to earnings in the year incurred. The cost and accumulated depreciation and amortization applicable to assets retired or otherwise disposed of are eliminated from the accounts. Any gain or loss on disposition is credited or charged to earnings.

Profit on Sale of Real Property

Profit on the sale of real property is recognized when the buyer has made an irrevocable commitment to the sale and has met certain down payment requirements. In general, the down payment requirements range from 10% to 25% for improved property and from 15% to 30% for unimproved property based on the use of the property and cash flow projections.

Mortgage-backed Securities

The Association has issued and sold mortgage-backed securities guaranteed by the Government National Mortgage Association under the provisions of the National Housing Act. An amount equal to one month's interest on all mortgages in each security pool is deposited in a custodial account and recorded as deferred servicing costs on the Association's books. These deferred servicing costs are included in other assets and are amortized over a ten-year period using the sum-of-the-years-digits method.

Gain or Loss on Sale of Loan Participations

The Association sells mortgage loan participations for cash proceeds equal to the principal amount of loans sold but with yield rates which reflect the current market rate. Gain or loss is recognized and premium or discount is recorded at the time of sale in an amount reflecting the difference between the contractual interest rates of the loans sold and the current market rate. Additionally, ⅜ of 1% is considered as a servicing fee to the Association in the determination of gain or loss. Amortization of discount or premium represents an adjustment of yield and is reflected as an addition to or reduction of interest income using the sum-of-the-years-digits method over the estimated remaining life of such loans.

Reclassification in Presentation

The 1975 financial statements have been reclassified to conform to the 1976 presentation.

EQUITABLE SAVINGS & LOAN ASSOCIATION
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of Equitable Savings & Loan Association and its wholly-owned subsidiaries after eliminating all significant intercompany accounts and transactions.

(b) Savings and Loan Operations:

(1) Deferred Loan Fees and Discounts

Mortgage loan origination fees in excess of 1% of the loan amount plus $200 for nonconstruction loans and 2% of the loan amount plus $200 for construction loans are deferred and taken into income on the straight-line basis over a ten year period. For loans originated prior to December 31, 1971 the amortization period is seven years. Unearned income on discounted loans is amortized into income using the sum-of-the-years-digits method over the loan term.

(2) Reserve for Bonus Interest

Bonus interest becomes due and payable only upon maturity of certain types of certificate savings accounts. The reserve represents 100% of the potential bonus earned through the end of each year.

(c) Other Diversified Finance Operations:

(1) Warehoused Real Estate Loans Held for Sale

Mortgage loans held for sale are stated at the lower of cost or market (net realizable value). Marketing gains or losses on mortgage loan discounts are recognized at the time of sale of the loans, except that the difference between bulk loan purchase costs and the price received upon sale of loans (principally under GNMA backed securities) is deferred and amortized against servicing income over the estimated life of the loans. Construction loan fees are generally taken into income on the straight-line method over the expected disbursement period of the loan, normally less than one year.

(2) Loan Servicing

Real estate loans are serviced by Sherwood & Roberts, Inc. for investors. At December 31, 1976 and 1975, the total amount of real estate loans serviced for investors was $534,949,000 and $476,902,000 respectively. These loans are not reflected in the accompanying consolidated financial statements. Loan servicing fees are credited to income when earned. Loan servicing costs are charged to expense when incurred. Escrow and custodial funds are not included in the accompanying consolidated financial statements since they represent mortgagor escrow balances held in special bank accounts for various investors. Such funds totaled $8,353,128 and $7,363,189 at December 31, 1976 and 1975.

(3) Real Estate Developments

Investment in real estate held for development and sale is valued at the lower of cost or market. All development and certain holding costs are capitalized, subject to the lower of cost or market principle, until the project is completed and available for delivery.

(4) Insurance Commissions

Insurance commissions are recognized as income at the effective date of the policy. Return commissions are charged to operations when policies are terminated. Historically, early terminations have been insignificant and no provision is made for possible cancellations.

(d) Marketable Securities

Under a servicing agreement with the Federal National Mortgage Association (FNMA) there is a requirement to hold their common stock. Such stock is valued at cost except that if market value on any excess shares held, over that required by FNMA, is less than cost, such unrealized losses are recognized through retained earnings. Other equity securities held are not significant.

Other marketable securities are carried at amortized cost rather than the lower of amortized cost or market as it is management's present intention to either effect transactions resulting in insignificant or no loss or hold the securities to maturity. Gains or losses on the sale of such securities are recognized upon realization and are shown in the consolidated statement of earnings.

(e) Allowance for Losses Against Loans and Real Estate Held for Development and Sale

Allowances for loss on specific problem loans and properties are charged to earnings when it is estimated a decline in market value has reduced the net realizable value of the underlying security to less than carrying value.

(f) Other Assets

Other assets include identifiable intangibles and the excess of cost over net assets of acquired businesses. Identifiable intangibles are amortized over their estimated useful lives and the excess of cost over net assets of acquired businesses is amortized over a period not in excess of forty years.

(g) Depreciation of Property, Equipment and Leasehold Improvements

Property and equipment is depreciated on a straight-line basis over the estimated useful lives (twenty-five to fifty years for buildings and improvements, three to ten years for equipment and three to thirty years for leasehold improvements) of the various classes of assets from their respective dates of acquisition.

(h) Deferred Income Taxes

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. Investment tax credits are accounted for on the "flow through" method, which recognizes the benefit in the year realized.

NORTHERN CALIFORNIA SAVINGS AND LOAN ASSOCIATION
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Basis of Consolidation. The accompanying consolidated financial statements include the accounts of the Association and its wholly owned subsidiary, Bryant Financial Corporation. The subsidiary shares in 60% of the operations of two partnerships (see Note 2) which acquire, develop and sell real estate and are carried at equity. All material intercompany profits have been eliminated.

Investments in Liquid Assets. In accordance with regulations, the Association must maintain an amount equal to 7% (6½% at December 31, 1975) of total savings plus short term borrowings in cash and U. S. Government and other approved securities that are readily convertible to cash. These securities are carried at cost with any discount or premium amortized to maturity. Securities are not adjusted to the lower of cost or market because it is generally management's intention to hold these securities to maturity, primarily to meet the above mentioned regulatory requirements.

Provision for Losses. The Association provides for estimated losses on loans and real estate owned when the net realizable value is less than the Association's investment in such assets. The allowance for possible losses is determined without any offset for anticipated gains. No provision for losses on mobile home loans has been provided because these loans are made with recourse to servicing agents.

Loan Sales. Additional funds for lending are provided by selling interests in real estate loans. It is the policy of the Association to select loans for sale that have approximately the same average interest rate, adjusted for servicing fee, as the contractual yield to the buyer.

Mobile Home Loans. These loans are reported net of unearned discounts. Discounts are amortized to income over the life of the loan on the sum of the digits method.

Investment in Federal Home Loan Bank Stock. The Association is a member of the Federal Home Loan Bank system. As a member of this system the Association is required to maintain an investment in capital stock of the Federal Home Loan Bank of San Francisco in an amount equal to 1% of its oustanding home loans or 1/12 of its outstanding advances whichever is higher. Cash dividends earned on the Bank stock provided a yield of 4¾% in 1976 and 5% in 1975.

Prepayments to the FSLIC Secondary Reserve. The Association has deposited funds in a secondary reserve of the Federal Savings and Loan Insurance Corporation in connection with the insurance of the Association's savings accounts. This reserve is subject to decrease for current insurance premiums and is increased for earnings on the reserve balance. The earnings on this reserve were 6.96% in 1976 and 6.91% in 1975.

Association Premises and Equipment. Depreciation and amortization are computed on the straight-line method over the estimated useful lives as follows:

Buildings	50 years
Leaseholds	Term of Lease
Furniture, Fixtures and Equipment	3 to 20 years

Maintenance and repairs are charged to expense and improvements are capitalized. The cost and accumulated depreciation or amortization relating to items of property retired or otherwise disposed of are eliminated from the accounts, and any resulting gain or loss is credited or charged to earnings.

Taxes on Income. Deferred taxes on income have been provided on earnings reported for financial statement purposes but which are deferred for tax purposes. Such timing differences arise principally from the deferral of loan fees, and from the use of the cash method of accounting for income tax purposes versus the accrual method of accounting for financial reporting purposes.

Investment credit, an immaterial amount, is accounted for as a reduction of the provision for taxes on the "flow-through" method.

Unamortized Loan Fees. Loan fees in excess of $200 plus 1% of the loan on existing property and 2% of the loan for construction are deferred. Deferred fees are amortized on the straight-line method over a ten-year period or until the loan is paid off or sold.

Stock Dividends. The fair market value less stated value of the shares issued for stock dividends has been charged to appropriated retained earnings. The stated value of the shares issued and the cash paid for fractional shares were charged to unappropriated retained earnings.

Earnings per Share. Per share earnings are computed on the basis of weighted average shares outstanding adjusted for stock dividends. In 1976 and 1975 such shares were 3,211,609 and 3,198,752, respectively.

FINANCE—INVESTMENT COMPANIES

AMERICAN UTILITY SHARES, INC.

Notes to Financial Statements

1. Significant Accounting Policies

The Company is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The following is a summary of significant accounting policies consistently followed by the Company in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles.

(a) Market value on any given day is determined as follows: Securities listed or admitted to trading privileges on any national securities exchange are valued at the last sales price on the principal securities exchange on which such securities are traded, or, if there is no sale, at the last bid price on such exchange. Securities traded only in the over-the-counter market are valued at the bid price. Securities for which market quotations are not available are valued at fair value by the Board of Directors.

(b) It is the policy of the Company to meet the requirements of the Internal Revenue Code applicable to investment companies and to distribute all of its taxable income in taxable distributions. Therefore, no Federal income tax provision is required.

(c) Security transactions are accounted for on the date that the securities are purchased or sold (trade date). Dividend income and distributions to shareholders are recorded on the ex-dividend date.

The portion of dividends received by the Company representing non-taxable returns of capital is recognized and recorded by the Company when such amounts are determinable (generally, several months after the fiscal year-ends of the utility companies invested in by the Company) by reducing both the cost basis of the applicable securities and dividend income. For the year ended July 31, 1977, this adjustment amounted to $49,848.

SCUDDER DUO-VEST INC.
Notes to Financial Statements

A. Significant Accounting Policies

Scudder Duo-Vest Inc. (the "Company") is registered under the Investment Company Act of 1940 as a diversified, closed-end management company. The policies described below are followed by the Company for the preparation of its financial statements in conformity with generally accepted accounting principles.

Security Valuation

Short-term notes are carried at values as determined in good faith by or under the supervision of officers of the Company so authorized by the Board of Directors. Such short-term notes are valued at cost with accrued interest or discount earned included in interest receivable at March 31, 1977.

All other securities are valued at closing sales prices on national securities exchanges or, in the absence of closing sales prices and for over-the-counter securities, at the mean between closing bid and asked prices on such exchanges or over-the-counter markets or, in the absence of such prices, as determined in good faith by the Board of Directors of the Company.

Federal Income Taxes

The Company expects to distribute its taxable ordinary income each year and otherwise comply with provisions of the Internal Revenue Code applicable to investment companies. The Company accordingly pays no federal income taxes and no federal income tax provision is required. The Company is required to reinvest long-term capital gains, if any, designating them to the Capital Shareholders, who will be entitled to credits for any federal income taxes paid thereon by the Company. As of March 31, 1977 the Company had a capital loss carryforward of approximately $6,654,900 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until March 31, 1980 ($332,800), March 31, 1982 ($3,249,900), and March 31, 1983 ($3,072,200), the respective expiration dates, whichever occurs first. Expiration of the capital loss carryforward was extended three years by The Tax Reform Act of 1976.

Distribution of Net Gains

Subject to certain exceptions, all net capital gains (losses) accrue to the Capital Shares but will not be distributable so long as any Income Shares are outstanding.

The Company uses the identified cost method for determining realized gain or loss on investments for both financial reporting and federal income tax reporting purposes. See note C.

Other

As is common in the industry, security transactions are accounted for on the date the securities are purchased or sold. Dividend income and distributions to shareholders are recorded on the ex-dividend date.

THE UNITED CORPORATION
Notes to Financial Statements

1. Significant Accounting Policies

The Company is registered under the Investment Company Act of 1940, as amended, as a nondiversified, closed-end management investment company. The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles.

A. Security Valuation

Investments are stated at value based on latest quoted market prices or at fair value as determined by the Board of Directors. See Notes 2 and 3.

The certificates of deposit are stated at cost, plus accrued interest, which approximates market.

B. Federal Income Tax

The Company has elected to comply with the requirements of the Internal Revenue Code applicable to "regulated investment companies" for its fiscal year ended March 31, 1977, and has distributed substantially all of its "investment company taxable income" and net realized long-term capital gains to its shareholders. Therefore, no Federal income tax provision is required. The Company plans to retain substantially all of the net long-term capital gain to be realized upon the proposed distribution by Canadian International Power Company Limited (CIPower). See Note 2.

C. Other

As is common in the industry, security transactions are accounted for on the date the securities are purchased or sold. In determining the cost of securities sold, the Company uses the average cost method for book purposes and specific identification for federal income tax purposes. Dividend income is recorded on the ex-dividend date.

FINANCE—SECURITY AND COMMODITY BROKERS, DEALERS AND SERVICES

BACHE GROUP INC.

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies: The consolidated financial statements include the accounts of Bache Group Inc. and its subsidiary companies (the Company). Such subsidiary companies are located in the United States and in various foreign countries whose currencies are substantially freely convertible into U.S. dollars. Assets and liabilities in foreign currencies are generally translated into U.S. dollar equivalents at current rates of exchange, except for office equipment and leasehold improvements which are translated at historical rates. Revenue and expense accounts are translated at average rates of exchange for the period except for depreciation and amortization which are translated at historical rates. Gains and losses on translation, the amounts of which are not significant, are recorded in income currently.

Securities and commodities owned are valued at market and unrealized gains and losses are reflected in revenue from principal transactions. Security positions which are acquired for arbitrage are treated for accounting purposes as exchangeable upon approval by the directors of each company provided the exchange occurs shortly thereafter.

Securities transactions are recorded in the accounts on a settlement date basis which is generally five business days after trade date. Commission income and related expenses are accrued for transactions executed but not settled.

Leasehold improvements are amortized over the lesser of the estimated economic life of the improvement or the remaining term of the lease. Depreciation is generally provided on the sum-of-the-years' digits method over an eight-year life for data processing equipment and a ten-year life for all other equipment.

For comparability, certain 1975 amounts have been reclassified to conform with the presentation for 1976.

DEAN WITTER ORGANIZATION INC.

Financial Review

Summary of Accounting Policies

Consolidation—All subsidiaries are consolidated and material intercompany transactions and balances are eliminated.

Security and Commodity Transactions—Trading account securities are valued at market. Investment securities, which are not material, are valued at estimated fair value. Purchases and sales of securities and the related commission revenues and expenses are reflected in the consolidated financial statements on settlement date. Commodity commissions and the related expenses thereon are recorded on the settlement date when the transaction is completed. Investment banking revenue is recorded as follows: management fees on offering date; sales concessions on settlement date; and underwriting fees on the date the underwriting syndicate is closed.

Securities Sold Under Repurchase Agreements—Repurchase agreements are accounted for as loans and are carried at the contract amounts at which the securities will be subsequently reacquired.

Exchange Memberships—Exchange memberships are carried at cost less an allowance of $2,000,000 which represents management's estimate of the permanent impairment of value of certain memberships.

Office Facilities—Office facilities are carried at cost less accumulated depreciation and amortization. Depreciation of furniture and equipment is provided over useful lives of five to twelve years principally by accelerated methods. Amortization of leasehold improvements is provided over useful lives of six to ten years by accelerated methods or by the straight line method over the lives of the leases if shorter.

Income Taxes—The effective rate of income taxes varies from year to year because of fluctuations in the proportions of taxable and nontaxable income. Investment tax credits (1976, $324,000; 1975, $21,000) are reported as a reduction in United States taxes in the year the assets are placed in service.

Deferred income taxes are provided for timing differences between the reporting of income for financial statement and tax return purposes. Such differences arise principally from the use of differing methods in valuing trading account securities; in reporting deductions for state taxes, reserves for security claims and other security differences, depreciation and amortization; and in reporting undistributed earnings of foreign subsidiaries. These differences resulted in deferred tax charges of $260,000 for 1976 and deferred tax credits of $224,000 for 1975.

HOTELS AND MOTELS

HOWARD JOHNSON COMPANY
Notes to Financial Statements

Note 1—Statement of Accounting Policies

Basis of Consolidation and Fiscal Year

The accompanying consolidated financial statements include the accounts of Howard Johnson Company and its subsidiaries, all of which are wholly-owned. All material inter-company transactions are eliminated.

The Company's fiscal year ends on the Friday nearest December 31. Normally, each fiscal year consists of 52 weeks, but every five or six years the fiscal year includes 53 weeks in order to maintain the year-end on the Friday nearest to December 31. Both the 1976 and 1975 fiscal years consisted of 52 weeks.

Fixed Assets

Fixed assets are stated at cost. The asset and accumulated depreciation accounts exclude fully depreciated assets still in use. Additions, renewals and betterments of fixed assets, unless of relatively minor amount, are capitalized. Expenditures for maintenance and repairs are charged to income. The cost of fixed assets retired or sold, together with the related accumulated depreciation, is removed from the appropriate asset and depreciation accounts, and the resulting gain or loss is included in net income.

Depreciation

For financial reporting purposes, the Company provides depreciation on the straight-line method for depreciable fixed assets acquired subsequent to January 1, 1968. The majority of fixed assets acquired prior to that date are depreciated on the sum-of-the-years-digits method. Where permitted, accelerated depreciation is used for federal and state income tax purposes.

Depreciation for financial reporting purposes is based on the following estimated useful lives:

	Years
Land improvements	10
Buildings owned	20-40
Restaurant and motor lodge equipment	8-10
Plant, office and transportation equipment	4-15

Improvements to leased property (other than land improvements) are being amortized on the straight-line method over the periods covered by the leases.

Initial License Fees

Initial license fees are recorded as income when the proceeds are received. Substantially all expenses associated with the issuance of license agreements occur prior to the receipt of the license fees and are charged to income currently.

Pre-opening Expenses

Payroll and other expenses incurred prior to the opening of new restaurants and motor lodges are charged to income currently. The initial supply of china, tableware, linens and other expendable items is capitalized; subsequent replacements are charged to income.

Lease Accounting

The Company occupies real estate property under numerous long-term and short-term leases. Rentals and other expenses borne by the Company under the terms of such leases are charged to income currently.

The Company charges to current income amounts payable under short-term leases for rental of vehicles, data processing and other equipment.

Income Taxes

Some items of income or expense are recognized for income tax purposes and financial reporting purposes in different time periods. The provision for federal income taxes reflects tax allocation accounting to recognize such timing differences. Use of accelerated depreciation for tax purposes is currently the major item causing such differences.

Prepaid income taxes relate to settlement of prior years' tax returns.

Investment tax credits are taken into income as a reduction of the provision for federal income taxes during the year such credits become available.

MARRIOTT CORPORATION
Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Principles of Consolidation:

The consolidated financial statements include accounts of the Company and all subsidiaries. Investments in companies representing 20% to 50% interests are accounted for under the equity method. All material intercompany transactions and balances have been eliminated.

In 1977, Cruise Ships and Other sales include $11,891,000 for the Architecture and Construction Division and Fairfield Farm Kitchens, which are treated as separate profit centers for external reporting beginning in fiscal 1977.

Foreign Operations:

The consolidated financial statements include net assets of foreign subsidiaries of $39,305,000 at July 29, 1977 and $40,111,000 at July 30, 1976. Foreign sales and net income after interest, intercompany charges and foreign tax, as a percent of consolidated sales and net income were 8% and 13% in 1977 and 8% and 7% in 1976, respectively.

Financial statements of foreign subsidiaries are translated into U.S. dollars in accordance with the provisions of Financial Accounting Standards Board Statement No. 8. Translation losses amounted to $594,000 in 1977 and $471,000 in 1976.

Theme Parks:

The two theme parks operate primarily during the summer season. Operating costs incurred during the off-season are deferred (included in prepaid expenses). These deferred costs and annual depreciation are charged to expense during the operating season based on budgeted sales. Interest and general and administrative costs are expensed as incurred.

The theme parks opened in March and May, 1976. The operating results for the initial period in fiscal 1976 are not comparable with the results for fiscal 1977 because they include only part of an operating season, the impact of short term variations, the incurrence of initial start-up costs and because the results for 1976 include charges for interest, depreciation and real estate taxes only from the opening of the parks.

Property and Equipment:

Depreciation and amortization are calculated on the straight-line method for financial statement purposes based on the following lives:

Building and improvements	—25 to 45 years
Leasehold improvements	—Shorter of life of lease or asset
Furniture and equipment	—2 to 15 years
Cruise Ships	—20 years

Maintenance and repairs are expensed. New unit costs include interest, rent charges and real estate taxes incurred during construction. Replacements and improvements, including most costs of converting units, are capitalized.

Upon sale or retirement of property and equipment (excluding normal sales or retirements of theme park rides and equipment), the costs less accumulated depreciation and salvage are charged or credited to income. Theme park rides and equipment are depreciated under the composite method and no gain or loss is recognized on normal sales or retirements.

In connection with the development of properties, land was acquired to be used for future operations and/or for eventual resale. Carrying costs are capitalized to the extent that estimated realizable value exceeds the initial and accumulated carrying costs.

Cost in Excess of Net Assets of Businesses Acquired:

Of the cost in excess of net assets of businesses acquired, $12,936,000 relates to acquisitions prior to October 31, 1970 (at which time amortization became mandatory) and is not being amortized because in the opinion of management, it has continuing value. The remaining $4,686,000 at July 29, 1977 is being amortized over periods of up to 40 years.

Pre-Opening Costs:

Costs incurred prior to opening are deferred and amortized over three years for hotels, five years for theme parks and one year for other major operations. Similar costs for all other operations are expensed as incurred.

Capitalized Interest:

Interest cost is capitalized as part of construction costs or carrying costs of land to properly reflect the total costs of property. Interest is capitalized by applying the effective interest rate on the related borrowings to costs incurred. If all interest had been expensed when incurred, net income as reported would have been increased by $213,000 ($.01 per share) in 1977 and reduced by $4,375,000 ($.12 per share) in 1976.

Income Taxes:

United States and foreign income taxes are based on reported income. Deferred income taxes are provided for timing differences between book and taxable income, principally depreciation, interest and stock compensation.

Investment tax credits are accounted for using the "flow-through" method.

Provision for United States taxes has not been made on unremitted earnings of foreign subsidiaries because management considers these earnings to be permanently invested.

Deferred Management Stock Compensation:

Compensation for deferred stock bonus awards is recorded in the year in which the bonus is earned, adjusted for anticipated forfeitures, and is based on quoted market price at the date awarded.

Computations of Earnings per Share:

Earnings per share are based on the weighted average number of shares outstanding during each year, which was 36,568,300 for 1977 and 35,222,603 for 1976 (adjusted for stock dividends). Distribution of shares reserved would not have a material effect on earnings per share.

SONESTA INTERNATIONAL HOTELS CORPORATION
Notes to Consolidated Financial Statements

1. Accounting Policies

Principles of Consolidation:

The consolidated financial statements include the accounts of all domestic and foreign subsidiaries. Results of operations of a property managed on a fee basis are not consolidated. Intercompany transactions are eliminated where appropriate.

Foreign Currency Translation:

Items in foreign currencies are translated into United States dollars as follows: monetary assets and liabilities at end of period rates of exchange; all other balance sheet accounts at rates prevailing when acquired or incurred (historical rates); and income, costs and expenses at average rates during the period, except that depreciation and amortization and cost of sales are translated at historical rates. Unrealized profits or losses from such translations and from forward exchange contracts are credited or charged to income.

Inventories:

Inventories are stated at the lower of cost (first-in, first-out method) or market (replacement cost or net realizable value).

Property, Plant and Equipment:

Depreciation and amortization of items of property, plant and equipment for financial reporting purposes are computed generally on the straight-line method at rates based on estimated useful lives of the related assets. The annual rates used for this purpose are as follows:

Buildings	2.5% to 5%
Furniture and equipment:	
Located in owned properties	10% to 20%
Located in leased properties	Over the lesser of lease periods or estimated useful lives
Leaseholds and improvements	Over the lesser of lease periods or estimated useful lives

At the time property, plant and equipment is retired or otherwise disposed of, the cost of such items and the depreciation or amortization accumulated thereon are deducted from the respective asset and accumulated depreciation or amortization accounts and any profit or loss is credited or charged to income. During 1975, additional depreciation was recorded in recognition of the reduced economic value of a hotel property (see Note 2).

Maintenance, repairs and minor renewals and replacements are charged to income when incurred. Betterments and major renewals and replacements are capitalized. Interest and financing costs incurred on long-term debt obtained in connection with the construction of hotel properties or major additions to existing hotel properties are capitalized as costs of these properties. If all capitalized interest and financing costs were charged to income as incurred, the impact on net income would not have been material in 1976 or 1975.

Pre-Opening Expenses:

Pre-opening expenses of new hotels are charged to income as incurred.

Leases:

Under generally accepted accounting principles, most of the Company's lease obligations are not currently required to be capitalized; however, many of such lease obligations are to a considerable extent the equivalent of long-term debt. Certain of the Company's existing long-term lease obligations qualify as capital leases as defined by Statement of Financial Accounting Standards No. 13 (SFAS #13) which was issued in November 1976 and is effective for years commencing after December 31, 1976. As permitted by SFAS #13, the Company intends to defer capitalization of existing leases which qualify for such treatment, "pre-existing capital leases" (see Note 8).

Pension Plans:

The Company and certain of its subsidiaries have or participate in pension plans covering substantially all of their salaried and some of their hourly employees. Pension expense includes amortization of prior service costs over ten and forty year periods, and includes payments made under the terms of union contracts to union pension plans financed by industry employers. The Company funds pension costs accrued (see Note 8).

Allocation of Corporate Expenses:

Charges for corporate administration and marketing services are allocated only to hotel operations on the basis of revenues of such hotels. Interest is charged only on certain intercompany indebtedness.

Income Taxes:

The Company and its United States subsidiaries file a consolidated federal income tax return. Where appropriate, federal and foreign income taxes are provided on earnings of subsidiary companies which are intended to be remitted to the parent company in the near future. Unremitted earnings of foreign subsidiaries which have been, or are intended to be, permanently reinvested to finance future expansion, aggregated approximately $5,700,000 at December 31, 1976.

Investment tax credits are applied using the flow-through method. For further information concerning income taxes see Note 9.

EQUITABLE LIFE INSURANCE COMPANY OF IOWA
Notes to Consolidated Financial Statements

Note A—Significant Accounting Policies

Consolidation: The consolidated financial statements include the accounts of the Company, its real estate and other subsidiaries and, in 1976, a newly-formed life insurance subsidiary, all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated.

Investments: Investments in bonds and mortgage loans on real estate are reported at cost adjusted for amortization of premiums or discounts. Market value of bonds is based on the latest quoted market prices, or where not readily marketable at values which are representative of the market values on issues of comparable maturity and quality. Marketable equity securities are reported at market. Preferred stocks with fixed redemption schedules are reported at cost. Unrealized appreciation and depreciation of marketable equity securities is credited or charged directly to stockholders' equity except for permanent declines in market values which are recognized in the determination of net income. Investments in policy loans are reported at unpaid principal. Investments in real estate and property and equipment are reported at cost less allowances for depreciation. Realized gains and losses are determined on the basis of specific identification of investments sold and are included in net income.

Investments in and advances to joint ventures are reported at underlying equity in net assets.

Deferred Policy Acquisition Costs: Certain costs of acquiring new business, principally commissions, medical examinations, underwriting and issue expenses, and other expenses related to the production of new business have been deferred. Such costs are being amortized over the premium-paying period of the related policies in proportion to premium revenue recognized, using the same assumptions as to interest, mortality, and withdrawals as are used for computing liabilities for future policy benefits.

Future Policy Benefits: The liability for future policy benefits has been calculated on a net-level basis. Interest assumptions for 1976 issues of policies are an initial rate of 6.3% graded to 4.25% after twenty years. For policies issued prior to 1976 interest assumptions are an initial interest rate of 6.3% for 1975 series of policies, 6% for 1974 and 1973 series of policies and 5.5% for 1972 and 1971, all graded to 4.25% after twenty years; 4.75% for 1970, graded to 4% after twenty years; and substantially level rates of 4.0% for 1969 through 1966; 3.7% for 1965 through 1963, 3% for 1962 through 1957, and 2.75% for 1956 through 1946. Mortality and withdrawal assumptions generally are based on the Company's experience. These assumptions have been adjusted to provide for possible unfavorable deviation from the assumptions.

Recognition of Premium Revenue and Costs: Life insurance premiums are recognized as revenue over the premium-paying period. Future policy benefits and policy acquisition costs are associated with the premiums as earned by means of the provision for future policy benefits and amortization of deferred policy acquisition costs.

Federal Income Taxes: The Company is taxed currently and expects to be taxed on the same basis in the future at usual corporate rates on taxable investment income as defined by the Life Insurance Company Income Tax Act. Timing differences arising from applying generally accepted accounting principles should have no tax effect when these timing differences reverse.

The Company's subsidiaries, other than the life insurance subsidiary, file a separate consolidated tax return and are taxed at normal income tax rates.

The investment tax credit, which is not material, is accounted for by the flow-through method.

Separate Accounts: The transactions in the separate accounts (which are charged or credited directly to the accounts) are excluded from the consolidated statements of income.

Basis for Determining Earnings for Participating Policyholders: For purpose of determining the earnings for participating policyholders the Company maintains separate accounts by class of business and allocates to such accounts specific items of income and expense directly attributable to each class of business. In addition, equitable proportions of general income and expense are allocated to each class of business. An amount up to ten percent of the increase in statutory participating surplus before policyholders' dividends may be transferred to the stockholders' account. Equity attributable to participating policyholders has been adjusted to reflect the conversion to generally accepted accounting principles and these adjustments are reflected in the transfer. See Note F.

Earnings per Share: Earnings per share is based on the weighted average number of shares of common stock outstanding during each year, plus shares contingently issuable under the performance share plan (1976—4,993,839; 1975—4,978,504). Employee stock options have not been included in the net earnings per share computation since their effect is anti-dilutive. See Note E.

JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY
Notes to Financial Statements

Note 1—Accounting Practices

The financial statements have been prepared on the basis of accounting practices prescribed or permitted by insurance regulatory authorities, which practices are regarded as generally accepted accounting principles for mutual life insurance companies. Accordingly, the assets in the statement of financial position are "admitted assets" as defined by regulatory authorities. Other significant accounting practices of the Company are as follows:

Revenues and Expenses: Premium revenues are recognized over the premium paying period whereas expenses, including the acquisition costs of new business, are charged to operations as incurred and policyholder dividends are provided as paid or accrued.

Valuation of Assets: Investments in the general account are carried at values on the following bases.

Bond and stock values are as prescribed by the National Association of Insurance Commissioners (NAIC), i.e., bonds generally at amortized values, preferred stocks in good standing at cost, and all other stocks at market. Investments in affiliates are carried at equity in their net assets. Mortgage loan values are at outstanding indebtedness or amortized cost. Real estate values are at depreciated cost, less encumbrances. Policy loan values are at outstanding indebtedness not in excess of policy cash surrender value.

A mandatory securities valuation reserve required by the NAIC and a mortgage loan and real estate valuation reserve provided by the Company are included among obligations. These reserves provide for possible declines in the values of bonds, stocks, mortgage loans and real estate in the general account.

Separate Accounts: Separate account assets (valued at market) and liabilities are included as separate captions in the statement of financial position. In the summary of operations, the separate account business, except for realized and unrealized capital gains and losses, are combined with the general accounts under the appropriate captions. Realized and unrealized separate account capital gains and losses are reflected in income offset by a corresponding increase or decrease in reserves required to provide for future payments to policyholders. This treatment has no effect on policyholders' contingency reserves.

Capital Gains and Losses: General account capital gains and losses, realized and unrealized, are reflected as direct credits or charges to policyholders' contingency reserves.

Policy reserves: Reserves for life insurance policies are maintained principally on the net level premium method using the 1941 and 1958 CSO, 1941 Standard Industrial, Standard Industrial, and American Experience mortality tables, with assumed interest rates ranging from 2½% to 3½%. Annuity and supplementary contract with life contingency reserves are based principally on modifications of the a-1949 Annuity Table, the Group Annuity Table for 1951 and the 1971 Group Annuity Mortality Table, with interest rates ranging from 2% to 6%.

Reserves for deposit administration funds and immediate participation guarantee funds are based on the Group Annuity Table for 1951, modified, at various interest rates. Accident and health policy reserves are generally calculated using both the two-year preliminary term and the net level premium methods based upon various morbidity tables.

Federal Income Taxes: Federal income taxes are charged to operations in the financial statements based upon amounts determined to be payable as a result of operations within the current accounting period.

Additional provisions representing possible liability on disputed issues are charged directly to policyholders' contingency reserves. No provision is recognized for timing differences that may exist between financial reporting and taxable income.

Special Adjustments to Contingency Reserves: From time to time the Company finds it desirable or necessary to strengthen certain policy reserves because of changes in actuarial assumptions or increased benefits. Reserve increases resulting from such determinations are charged directly to policyholders' contingency reserves.

INSURANCE—FIRE, MARINE, CASUALTY AND SURETY CARRIERS

GOVERNMENT EMPLOYEES INSURANCE COMPANY
Notes to Consolidated Financial Statements

Significant Accounting Policies

Consolidation

The financial statements include the accounts of the Company and its wholly-owned subsidiaries, GEICO Properties, Inc. and GEICO Washington Properties, Inc., which were formed principally to own property and real estate for the Company's use. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Reporting

The accompanying financial statements are presented in conformity with Generally Accepted Accounting Principles (GAAP). These principles differ from statutory accounting practices prescribed or permitted by the Department of Insurance of the District of Columbia in several material respects. The more significant variances between GAAP and statutory accounting practices are: in GAAP accounting, costs attributable to obtaining business are deferred and charged to income in proportion to the recognition of premium revenues rather than being charged to operations as incurred; deferred income taxes are provided on the timing differences between pretax accounting income and taxable income; certain assets, principally premiums receivable over 90 days past due and furniture and equipment, are reported as assets rather than being charged directly to statutory surplus; unpaid losses due from reinsurance transactions are set forth as an asset rather than being netted against the reserve for losses; stock dividends are charged to retained earnings at market value rather than par value; and reinsurance commissions are earned over the term of the business ceded rather than when received. In addition, intercompany gains on real estate transfers, which are eliminated in consolidation for GAAP purposes, are generally permitted in the calculation of statutory net income and surplus.

Investments

Investments in bonds are reported at amortized cost and investments in stocks are reported at market value. Such market values are as prescribed by the National Association of Insurance Commissioners and vary less than 1% from values determined by market quotations for stocks. Realized gains and losses on sales of investment securities, as determined on a specific identification basis, are included in the statement of operations. Unrealized appreciation (depreciation) on common and preferred stocks, after deferred income tax effects, is reported directly in shareholders' equity.

Reserves for Losses, Loss Adjustment Expenses and Unearned Premiums

The reserve for losses and allocated loss adjustment expenses are provided based upon averages for auto claims reported within the most recent six months, case basis estimates for older claims and calculated estimates of unreported losses. The reserve for unallocated loss adjustment expenses is provided based upon estimates of future expenses to be incurred in settlement of the claims provided in the reserve for losses. The reserve for losses further includes additional amounts which are presently anticipated to compensate for possible deficiencies caused by future changes in economic and social conditions. In 1975 and 1976 the determination of these additional amounts was based upon Company studies of its reserve levels using various projection techniques and included consideration of studies performed by a firm of independent consulting actuaries. In their report on the Company's reserves the independent consulting actuaries emphasized the importance of understanding the degree of variability inherent in their estimate and, indeed, in any loss reserve estimate. As a result of the effect of inflation on the cost of settling claims and a number of other uncertainties, they advised the Company that a considerable degree of variation from their estimates was not only possible but probable. They advised the Company that, although the degree of this variation cannot be determined, it could be substantial and could be in either direction from their reserve estimates. They further advised the Company that, in view of the variability inherent in the process of estimating reserves, they believe the Company's reserves for losses and allocated loss adjustment expenses as of December 31, 1976, are well within a range of adequacy which they deem reasonable and acceptable. The reserve estimates are continually reviewed and as adjustments to these estimates become necessary, such adjustments are reflected in current operations.

The reserve for unearned premiums is determined by prorating policy premiums over the terms of the policies. Unearned premiums are reported net of reinsurance.

THE HANOVER INSURANCE COMPANY

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of The Hanover Insurance Company

(Hanover), Massachusetts Bay Insurance Company (Mass Bay), California Compensation and Fire Company (Cal. Comp.) and Citizens Insurance Company of America (CICA) (see note 3). Hanover owns 100% of Mass Bay, 89% of the voting shares of Cal. Comp. and 83% of the voting shares of CICA. AMGRO, Inc., a premium finance company and wholly-owned subsidiary of the Hanover Insurance Companies, is carried as a non-consolidated subsidiary on the equity basis. All significant intercompany transactions and balances have been eliminated in consolidation.

Deferred Acquisition Expenses

Insurance premiums are reflected in income on a pro-rata basis over the life of the policies. Acquisition costs related to unearned premiums are similarly deferred and amortized to income over the life of the policies. The method of computing the deferred acquisition expenses limits the deferral to the lower of (a) that which remains after deducting the expected amount of losses and loss expenses that will be incurred as the premiums are earned or (b) the expenses applicable to the unearned premiums.

Reserves for Losses and Loss Expenses

The reserve for losses represents (a) case basis estimates of reported losses on direct business written, (b) estimates received from ceding reinsurers, and (c) estimates based on past experience of unreported losses; the total of which is reduced for portions ceded to other insurers. The loss expense reserve is formulated based on the relationship of paid loss expense to paid losses. Management believes that the provisions for losses and loss adjustment expenses at December 31, 1976, are adequate to cover the ultimate liability. However, such estimates may be more or less than the amount ultimately paid when the claims are settled.

Reserve for Unearned Premiums

Unearned premiums represent essentially that portion of premiums written which are applicable to the unexpired terms of policies in force. On direct term business, such unearned premiums are computed by the application of monthly pro-rata fractions to the developed in force premiums. On reinsurance assumed from other insurance companies or written through various underwriting organizations in which the Company participates, provision is made on the basis of reports received from the direct writing companies and the underwriting organizations. Unearned premiums on reinsurance ceded are deducted in the development of the net reserve.

Foreign Exchange

Assets and liabilities carried in foreign currencies, including unearned premiums and outstanding loss reserves, are translated at the rate of exchange in effect at the close of the period. Revenue and expense accounts are translated for each quarter at the rates in effect at the end of each period. Net foreign exchange gains amounting to $510,904 and $188,812 in 1976 and 1975, respectively, are shown in miscellaneous income and deductions.

Earnings per Share

Earnings per share are based on a monthly weighted average of the number of shares outstanding (3,235,669 in 1976 and 3,235,584 in 1975).

Equity in Assets of Underwriting Associations

The equity in assets of underwriting associations represents the Company's proportionate share of the assets of certain underwriting associations in which it participates. The Company's proportionate share of the losses, loss expenses, unearned premiums and other related accounts of such underwriting associations is included in the respective accounts in the accompanying consolidated financial statements.

Investments

Bonds eligible for amortization are stated at amortized value; all other securities are stated at market value in accordance with valuations adopted and approved by The Committee on Valuation of Securities of The National Association of Insurance Commissioners of The United States, except for the unconsolidated subsidiary which is carried on the equity basis. The cost of the securities sold was based on the specific identification method of the shares of each such security held at the time of sale.

Reclassifications

Certain reclassifications have been made to the 1975 consolidated financial statements in order to conform to the 1976 presentation.

THE FIRST AMERICAN FINANCIAL CORPORATION
Notes to Consolidated Financial Statements

Note 1—Statement of Accounting Policies:

A summary of the major accounting policies of the Company is set forth below:

Principles of consolidation—The consolidated financial statements include the accounts of The First American Financial Corporation and all subsidiaries in which its direct or indirect ownership of equity securities exceeds 50%. All significant intercompany transactions and balances have been eliminated.

Title plants—Title plants are carried at original cost, which includes the cost of producing or acquiring interests in title plants or the appraised value of subsidiaries' title plants at dates of acquisition for companies accounted for as purchases. Thereafter the costs of daily maintenance (updating) of these plants are charged to expense as incurred. Since a properly maintained title plant has an indefinite life and does not diminish in value with the passage of time, no provision has been made for depreciation of these plants.

Policy and other claims—The reserve for policy and other claims is based on the opinion of management and legal counsel concerning the outcome of known claims and suits arising in the normal course of the title insurance and escrow business conducted by the Company.

In connection with settlement of asserted title insurance and other claims the Company sometimes purchases mortgages, deeds of trust or fee interests in real property. These investments are carried at the lower of cost or estimated realizable value net of any indebtedness thereon.

Excess of cost over equity in net assets of acquired subsidiaries—The excess of cost over equity in net assets of acquired subsidiaries is amortized on the basis of its estimated useful life, but not in excess of 40 years.

Depreciation—Depreciation on buildings and furniture and equipment is computed using the declining balance and straight-line methods over estimated useful lives of 25 to 45 and 2 to 15 years, respectively.

Maintenance, repairs and retirement of properties—Major replacements and betterments of lands, buildings, furniture and equipment are charged to the property accounts while the cost of maintenance and repairs is charged to operations as incurred. When property is retired or otherwise disposed of, the cost thereof and applicable accumulated depreciation are removed from the respective accounts and the resulting profit or loss is credited or charged to operations. Costs and applicable accumulated depreciation of furniture and equipment are removed from the accounts, although the assets may still be in use, when they become fully depreciated.

Fiduciary assets and liabilities—Assets and liabilities of the trusts and escrows administered by the Company are not included in the consolidated balance sheets.

THE TI CORPORATION (OF CALIFORNIA)
Notes to Consolidated Financial Statements

Note I—Summary of Accounting Policies

The Business—The TI Corporation (of California) and its subsidiaries (hereinafter referred to as the Company), founded in 1893, operate the largest real estate title insurance business in the United States. These title insurance operations, which are subject to state regulation, are carried out through a number of subsidiary insurance companies. Escrow, tax reporting and other real estate related services are also furnished by the Company in connection with its title insurance operations. The Company conducts a private mortgage insurance business; financial, corporate and commercial printing businesses in New York City, Chicago, Houston and Los Angeles; and also conducts an engraving business in Los Angeles and precision graphics and microfilming operations in the Pacific Northwest. In addition, the Company administers trusts and estates in Southern California and performs real estate trust services in Arizona.

Basis of Consolidation—The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles (all significant intercompany transactions have been eliminated) and include the accounts of the Company and all subsidiaries in which ownership of equity securities exceeds 50%, except for Ticor Relocation Management Company (100% owned) which conducts a business similar in nature to finance operations and is accounted for on the equity basis (see Note 3).

In accordance with past practice, assets and liabilities of trusts administered by subsidiaries of the Company, real estate escrows administered by the insurance subsidiaries, and other fiduciary accounts administered by the Company, have not been included in the consolidated balance sheet. All cash held in the foregoing fiduciary capacities, unless otherwise directed by the depositor, is deposited in segregated unrestricted demand bank accounts in various banks with whom the Company does business.

Title Insurance Accounting—The Company records premiums on title insurance policies as income when policies are issued. However, for statutory purposes, its insurance subsidiaries are required to defer a portion of the premiums and take them into income over periods of up to twenty years. Although these amounts (net of the deferred income taxes applicable thereto) are included in consolidated retained earnings, they are not available for dividends and are therefore classified as "Retained earnings—Appropriate pursuant to statutory requirements of subsidiary companies."

The Company issues policies which insure against effects on property ownership arising primarily from undisclosed events of the past. This contrasts with most other kinds of insurance which protect against future events. The Company follows the practice of issuing title insurance policies only after an evaluation of all relevant matters affecting title to the property. The Company's risk therefore relates primarily to the quality of these services.

The Company has consistently followed the policy of providing for known claims, the cost of investigating and defending claims, and title contingencies with respect to which no claim has been made but there is reason to expect future losses.

The practices followed in establishing loss reserves are consistent with practices followed in the title insurance industry by companies doing business in the same manner as the Company. In connection with settlement of asserted claims of loss, the Company sometimes purchases mortgages, deeds of trust or interests in real property. These assets, which are carried at the lower of cost or estimated realizable value, are classified in the accompanying consolidated balance sheet as other assets.

Income from tax service contract fees is recognized as earned over the estimated life of the contract.

Premium revenues from title operations have been placed on a basis consistent with reports to regulatory agencies and utilized by other companies. This has resulted in the inclusion of amounts retained by producing agents (commissions) in "operating revenues." Accordingly, title insurance revenues for 1976 include $25,538,000 of commissions, as compared with $17,119,000 for 1975, which is reclassified.

Mortgage Insurance Accounting—Premiums for annual policies are earned pro rata over the policy term and policies of longer duration are amortized over the policy life based upon a statutory formula. Policy acquisition costs are deferred and charged to income over the term of the policy. The Company is subject to statutory reporting and is required to defer 50% of earned premiums by a direct charge to surplus for a period of ten years. Although these amounts (net of the deferred income taxes applicable thereto) are included in consolidated retained earnings, they are not available for dividends and are, therefore, classified as "Retained earnings—Appropriated pursuant to statutory requirements of subsidiary companies."

The Company follows the policy of providing for reported losses, incurred but not reported losses, and loss adjustment expense. These practices are consistent with practices followed by other mortgage insurance companies.

Real Estate Accounting—Interest, real estate taxes and development costs are capitalized until a saleable condition is reached. The amount of interest capitalized is based upon the borrowings of the individual projects. Costs are not capitalized beyond the estimated net realizable value of any given project. Management believes these practices are prevalent in the real estate development field. Costs incurred are allocated to the various parcels or units by methods which consider elements of area, specific identifiable costs and/or related expected sales prices. Revenues are recognized and the related capitalized costs are expensed at the time the sales are consummated.

Inventories—Inventories (which relate to financial printing operations) are stated at the lower of cost or market with cost being determined on an average cost basis. Inventories used in determining cost of goods sold amounted to $4,916,000 at December 31, 1976, $4,829,000 at December 31, 1975, and $4,230,000 at December 31, 1974.

Accounting for Depreciable Assets—Generally buildings are being depreciated on the straight-line and sum of the years digits methods with lives ranging from 40 to 45 years. Furniture and fixtures are generally depreciated on the straight-line method with a 10 year life. Mechanical equipment is generally depreciated on the sum of the years digits method with lives ranging from 5 to 15 years.

It is the practice to charge maintenance and repairs to expense; major expenditures for renewals and betterments are capitalized. When property is retired or otherwise disposed of, the cost thereof and applicable depreciation are removed from the respective accounts and the resulting gain or loss is recognized.

Accounting for Title Plants—Title plants are quasi-intangible assets and were substantially acquired prior to 1970. They are not amortized because the cost of continuously updating them is charged to operations.

Income Taxes—The Company reports certain income and expense items (principally premium income and tax service contract fees) for income tax purposes in different periods than for financial accounting purposes. Provision is made for deferred income taxes and future income tax benefits applicable to these timing differences.

Investment tax credits are recognized as a reduction in the income tax provision in the year allowed.

State taxes are generally levied on the insurance subsidiaries based upon gross revenues. All state taxes are included in "Taxes, other than social security and federal income."

Federal tax law permits mortgage guaranty insurance companies to deduct from taxable income (subject to certain limitations) amounts added to the statutory contingency reserve. The amounts so deducted must be included in taxable income at the end of the tenth subsequent year. This deduction is allowed only to the extent of taxable earnings, and the tax benefits attributable to the deduction are required to be invested in non-interest-bearing tax and loss bonds which have been offset against deferred federal income taxes in the accompanying consolidated balance sheet.

Investments—Short-term interest bearing investments, which are classified as current assets, are carried at cost, but not in excess of market value. Long-term investments in bonds are carried at cost or amortized cost. Equity securities are carried at the lower of cost or market. If there is evidence of a permanent impairment in the market value of any individual security, it is written down to estimated realizable value. The cost of securities sold is based on specific identification.

Goodwill—Goodwill, which consists of the excess of cost over equity in net assets of acquired subsidiaries, is being amortized over a 40 year period.

INSURANCE—AGENTS, BROKERS, AND SERVICE

BALDWIN & LYONS, INC.
PROTECTION INSURANCE COMPANY
Notes to Financial Statements

Note A—Summary of Significant Accounting Policies

Basis of Presentation:

The consolidated financial statements include the accounts of Baldwin & Lyons, Inc. (the Company) and subsidiaries, all of which are wholly-owned, after elimination of all significant intercompany transactions and accounts, except commissions.

The financial statements of Protective Insurance Company (Protective), presented separately and included in the consolidated financial statements, have been prepared on the basis of generally accepted accounting principles which differ in some respects from accounting practices prescribed or permitted by regulatory authorities ("statutory basis").

Investments:

Bonds are carried at cost adjusted for amortization of premium or accrual of discount; preferred and common stocks are carried at market prices, and related unrealized net gains (net of applicable tax effect) or losses are reflected directly in shareholders' equity. Realized gains and losses on disposal of investments are determined by specific identification of investments sold and are included in income.

Property and Equipment:

Property and equipment are carried at cost. Provisions for depreciation are computed substantially by the straight-line method at rates based upon estimated useful life.

Reserves for Losses and Loss Adjustment Expenses—Protective:

The reserves for losses and loss adjustment expenses are determined using case basis evaluations and statistical analysis and represent estimates of the ultimate net cost of all reported and unreported losses which are unpaid at year end. These reserves include estimates of future trends in claim severity and frequency and other factors which could vary as the losses are ultimately settled. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the reserves for losses and loss adjustment expenses are adequate. The estimates are continually reviewed and, as adjustments to these reserves become necessary, such adjustments are reflected in current operations.

Recognition of Revenue and Costs:

Premiums are earned over the period for which insurance protection is provided. A reserve for unearned premiums, computed by the monthly pro-rata method, is established to reflect amounts applicable to subsequent accounting periods. Commissions and other acquisition costs applicable to unearned premiums have been deferred to be charged against income as the related premiums are earned. Commissions paid or received among the companies in the consolidated group are recorded concurrently in income or expense.

Premiums paid to certain reinsurers are partially recoverable if the reinsurance contract generates profits to the reinsurers over prescribed periods (normally three years). Such recoverable premiums are recorded using a pro-rata method based upon the anticipated profit for the total prescribed period.

Federal Income Taxes:

A consolidated federal income tax return is filed by the Company and its subsidiaries. The investment tax credit, which is not material in amount, is accounted for by the flow-through method.

Stock Options:

Under qualified stock option plans, options to purchase Common Stock of the Company are granted at a price not less than 100% of the fair market value of the Common Stock at the date of grant. Generally, the options are exercisable at any time and expire three to five years from the date of grant. At the time options are exercised the stated value of the shares issued is credited to Common Stock and the proceeds in excess of stated value are credited to additional paid-in capital. No charges or credits are made to income in connection with options.

Employee Pension Plans:

A noncontributory trusteed pension plan covers substantially all employees. Required annual payments under the plan are actuarially determined to provide for normal costs and past service costs. Deferred pension costs are being amortized over forty years for financial statement purposes.

FRANK B. HALL & CO., INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

A. Principles of consolidation: The accompanying consolidated financial statements include the accounts of the Company, all domestic subsidiaries and all significant foreign subsidiaries. Investments in unconsolidated foreign subsidiaries are stated at cost plus equity in undistributed earnings since acquisition. All material intercompany transactions, profits and balances have been eliminated.

B. Translation of foreign currencies: Assets and liabilities of foreign subsidiaries are translated at rates of exchange prevailing at the balance sheet date, except that non-monetary long term assets are translated at the rates of exchange in effect at the dates the assets were acquired. Income and expense accounts are translated at average rates for the year. Exchange gains and losses ($137,000 loss in 1976 and $270,000 loss in 1975) are reflected in net income in the year incurred.

C. Income recognition: Commission income is recognized when the assured is invoiced, which approximates the effective date of the insurance policy. Contingent commissions and certain life insurance commissions are recognized when the Company is notified by the underwriter. Commissions relating to return or additional premiums or adjustments are recognized when they occur. Average adjusting fees are normally recognized when the claim is settled and the fee is determined. Salaries and other operating expenses are charged to income as incurred.

D. Property and equipment: Property and equipment are carried at cost. The Company and its subsidiaries depreciate property and equipment primarily on a straight-line basis over the estimated useful lives of the assets. Depreciation expense amounted to $1,638,000 in 1976 and $1,237,000 in 1975.

The estimated useful lives of principal items in the major classes of depreciable property are as follows:

Buildings	35-40 years
Furniture and equipment	5-10 years
Leasehold improvements	Life of asset or lease, whichever is shorter

Maintenance and repairs are charged to income as incurred. Other renewals and betterments are capitalized. The Company and its subsidiaries eliminate from the accounts the cost and related allowances for depreciation applicable to assets retired or otherwise disposed of, charging or crediting to income the differences between depreciated cost and proceeds of the sale or salvage.

E. Cost in excess of net assets of subsidiaries at dates of acquisition: Cost in excess of net assets of subsidiaries at dates of acquisition in connection with companies acquired prior to October 31, 1970, is not being amortized until such time as there may be evidence of diminution of value. Cost in excess of net assets of subsidiaries at dates of acquisition relating to companies acquired since October 31, 1970 ($13,218,000 at December 31, 1976) is being amortized over a forty-year period. Amortization amounted to $358,000 in 1976 and 1975.

MANUFACTURING COMPANIES

BEECH AIRCRAFT CORPORATION
Notes to Consolidated Financial Statements

Note A—Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of the company and all subsidiaries. In consolidation, significant inter-company accounts, transactions and profits have been eliminated.

A Bermuda-based insurance company subsidiary covers a portion of the Company's product liability requirements. Reserves for insurance claims represent the estimated liability to be funded by this subsidiary.

Undistributed Subsidiary Earnings—The Company's Domestic International Sales Corporation (DISC) subsidiary receives certain tax benefits and special tax treatment under the provisions of the Revenue Act of 1971. Because it is the Company's intention to indefinitely reinvest this amount, federal income taxes have not been provided for approximately $11,800,000 (50%) of the income of the DISC for the period from incorporation to September 30, 1976 producing annually a provision for income taxes substantially less than the statutory rate.

Inventories—Company operated and demonstrator aircraft are carried at estimated production cost and are reduced by allowances for usage, selling costs, and anticipated reconditioning costs upon disposition. Material, parts, and work-in-process inventories are carried at the lower of cost (last-in, first-out in 1976, first-in, first-out in 1975) or market (See Note B).

Commercial work in process including finished aircraft are stated at total production cost incurred, by program (including overhead and initial tooling), reduced by the estimated cost (including start-up costs) of units delivered.

Government work in process is stated at actual production costs (including overhead, initial tooling, and certain other direct costs) reduced by estimated costs identified with revenue recognized on units delivered or progress completed. Certain commercial and government programs have been reduced to their estimated realizable value.

In accordance with industry practice, inventories include costs relating to programs and contracts having production cycles longer than one year and, accordingly, a portion thereof will not be realized within one year.

Aircraft Leasing Activities—Aircraft sold to customers under long-term lease agreements are accounted for by the financing method and the amounts due from the purchasers during the lease terms are included in installment receivables.

Research and Development Expenses—Amounts expended for research and development of products of $17,112,299 and $12,148,292 were charged to expense as incurred in 1976 and 1975, respectively.

Depreciation—Property, plant, and equipment is carried at cost and depreciation is determined using principally the declining balance method over periods ranging from 8 to 33 years for buildings and improvements and 3 to 20 years for machinery and equipment.

Investment Tax Credit—Investment tax credit, accounted for by using the flow-through method, was approximately $302,000 in 1976 and $254,000 in 1975.

Earnings per Share—Primary earnings per share is based on average shares outstanding assuming the exercise of dilutive stock options. Fully diluted assumes the conversion of the 4¾% subordinated debentures and elimination of the related interest expense.

CAMCO, INCORPORATED
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies—

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary companies. All significant intercompany accounts and transactions have been eliminated.

Translation of Foreign Currencies—The accounts of the foreign subsidiaries are translated into U.S. dollars as follows:

> Current assets (except inventories) and all liabilities (except deferred taxes) are translated at the rates of exchange in effect at year-end; long-term assets and inventories are translated at the rates in effect at dates these assets were acquired and deferred taxes are translated at the rates in effect at the dates provided. Revenue and expense accounts are translated at the average rates of exchange in effect during the year, except for depreciation and cost of sales which are translated at historical rates. Translation adjustments are charged or credited to income.

Inventories—Inventories are valued at the lower of average cost or market and include materials, labor and overhead costs.

Property and Equipment, and Related Depreciation—These assets are carried at cost and are depreciated on a straight-line basis over their estimated useful lives. Expenditures for maintenance and repairs are charged directly to expense; major replacements and betterments are capitalized and depreciated over the remaining useful lives of the related assets. Gains or losses on the disposition of assets are recognized in income. The straight-line rates used to compute depreciation are: buildings, 2½ to 10%; machinery and equipment, 8⅓ to 33⅓%; and wireline equipment, 10 to 33⅓%.

Capital grants awarded to a foreign subsidiary in connection with the purchase of machinery and equipment are deferred and amortized over the estimated lives of the related assets.

Income Taxes—The Company and its domestic subsidiaries file a consolidated Federal income tax return. The foreign subsidiaries provide income taxes based on the tax regulations of the country in which they operate.

The Company uses the flow-through method of recognizing investment tax credits when they are utilized for income tax purposes.

Deferred income taxes are provided for timing differences resulting primarily from the use of accelerated depreciation methods for tax purposes and the straight-line method for financial purposes for certain assets, and the recognition of the provision for slow-moving inventory and the deduction of interest and royalty payments in different years for financial and tax purposes by foreign subsidiaries. The net amount of income taxes deferred because of these timing differences is charged to expense and credited to deferred income taxes. The deferred income tax account is charged as these taxes become payable or are otherwise reduced by net operating losses and investment and foreign tax credits.

The Company follows a policy of providing for dividend withholding taxes that would be payable on repatriation of 100 percent of the Venezuelan subsidiaries' current earnings up to the maximum allowed by local regulations. It is the Company's policy to repatriate such earnings whenever the funds are available. No such taxes are provided on the remaining earnings of foreign subsidiaries because management considers such undistributed earnings as permanently invested abroad.

Benefit Plans—The Company and its wholly owned domestic subsidiaries have a pension plan covering substantially all of its employees and certain employees in foreign service. Pension cost accruals include normal costs and a provision to amortize unfunded prior service costs over a 30 year period and are funded in full each year. The Company also has an employee thrift plan whereby 50 percent of the employee contributions are matched by the Company.

Earnings per Share—Earnings per common share are based on the weighted average number of shares of common stock outstanding during the year. Convertible debentures and stock options are not materially dilutive.

MOOG INC.

Summary of Significant Accounting Policies

The significant accounting policies followed by Moog Inc. and subsidiaries are described below.

Consolidation: The consolidated financial statements include the accounts of Moog Inc. and all of its domestic and foreign subsidiary companies. All significant intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition: Sales of commercial products and sales under short-term Government contracts are recognized as deliveries are made. The estimated sales under long-term Government fixed-price contracts in process are recognized using the percentage-of-completion method of accounting. Sales under this method are determined on the basis of engineering estimates of completion to date. Earnings are recorded when progress on such contracts reaches a point where experience is sufficient to estimate final results with reasonable accuracy. Sales under long-term cost-reimbursement contracts (cost plus fixed fee) are recorded as costs are incurred, and include estimated earned fees in the proportion that costs incurred to date bear to total estimated costs. As long-term contracts extend over one year, revisions in cost and earnings estimates are reflected in the accounting period when the additional data becomes known.

On contracts where an ultimate loss is anticipated upon completion, the entire amount of the estimated loss is accrued at the time the loss can be reasonably determined.

Accounts Receivable: In accordance with industry practice, accounts receivable include retainage (holdbacks) and certain unbilled revenues from long-term contracts, a portion of which will not be realized within one year.

Inventories: Inventories are stated at the lower of cost (first-in, first-out) or market.

Translation of Foreign Currency Transactions: Foreign currency transactions are translated in accordance with the requirements of "Statement of Financial Accounting Standards No. 8" of the Financial Accounting Standards Board. Assets and liabilities of foreign subsidiaries, except inventories and property, plant and equipment, are translated into U.S. dollars at current rates (rates of exchange in effect at the balance sheet dates). Inventories and property, plant and equipment are translated at the historical rates (rates in effect at the dates these assets were acquired). Revenue and expenses are translated at a weighted average of exchange rates in effect during the year, except for amounts relating to assets and liabilities translated at historical rates. Translation adjustments are charged or credited to net earnings.

Depreciation: Depreciation of plant and equipment is computed principally on the straight-line method over the following estimated useful lives:

	Years
Buildings	20-40
Improvements to land and buildings	10-15
Machinery and equipment:	
General	4-10
Automobiles	4
Furniture and fixtures	5-12
Telephone system	15

Improvements to leased property are amortized over the lesser of the life of the lease or life of the improvements.

Maintenance and repairs of plant and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of plant and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Income Taxes: To the extent that undistributed earnings of subsidiaries have been indefinitely invested in the subsidiaries' businesses, no provision is made for income taxes which would be payable if these earnings were paid as dividends to the parent company.

Investment credits are recorded as a reduction of the provision for income taxes in the year realized.

Pension Plans: The Company funds pension costs accrued, including amortization of prior service costs over a period of 30 years.

ROPER CORPORATION

Notes to Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies:

Change of fiscal year—On February 25, 1977 the Board of Directors approved a change in the Company's fiscal year end from December 31 to July 31. This change was made to make the fiscal year coincide more closely with the natural annual business cycle of the Company.

Consolidation Policy—The consolidated financial statements include the accounts of the Company (40% owned by Sears, Roebuck and Co.) and all of its subsidiaries.

Inventories—Inventories are valued at the lower of cost or market. Effective January 1, 1974, the Company adopted the last-in, first-out—LIFO method of inventory accounting for approximately 90% of its inventories (Note B). Prior to January 1, 1974, the first-in, first-out method—FIFO was used.

Product Liability—Provision is made for estimated settlement costs and related expenses of all product liability claims in the year in which such claims first become known.

Income Taxes and Investment Tax Credit—Deferred income taxes are provided on non-permanent differences between reported and taxable earnings related primarily to depreciation, inventory reserves, long-term contracts, product liability and workmen's compensation reserve provisions.

Investment tax credits are included as reductions of income tax expense in the year the credits arise.

U. S. income taxes are not provided on the exempt portion of earnings retained by domestic international sales corporation subsidiaries.

Pension and Profit Sharing Plans—The Company funds and charges to operations the current pension and profit sharing costs plus amortization of past service pension costs over forty years.

Property and Depreciation—Substantially all property and equipment (excluding tools and dies which are depreciated straight-line) acquired prior to January 1, 1973 are depreciated by accelerated methods. As of January 1, 1973, the Company adopted, for financial reporting purposes, the straight-line method of computing depreciation of all machinery and equipment acquired subsequent to that date (Note D). Buildings and improvements, including additions subsequent to January 1, 1973, are depreciated by accelerated methods.

The estimated useful lives of the principal classes of assets are as follows:

	Estimated Lives—Years
Buildings	20-50
Building equipment and improvements	10-25
Leasehold improvements	12*
Machinery and equipment	6-18
Office equipment	8-12
Transportation equipment	3-8
Tools, dies and patterns	1-3

*Lease term, if shorter

When properties are retired or otherwise disposed of, their cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income. Expenditures for maintenance and repairs are charged to earnings; major expenditures for renewals and betterments are capitalized and depreciated over their estimated useful lives.

Expenses associated with the start-up of new production facilities are charged to operations as incurred (Note L).

Long-Term Lease Obligations—As of January 1, 1977 the Company adopted Statement 13 issued by the Financial Accounting Standards Board. All long-term financing leases entered into after that date, together with prior leases which expire after 1980, are considered to be installment purchases for accounting purposes. These obligations are presented in the financial statements at the discounted present value of future rental payments and the cost of these leased properties is included in property, plant and equipment (Notes D, G).

SYSTRON-DONNER CORPORATION
Notes to Financial Statements

Summary of Significant Accounting Policies

Consolidation: The financial statements include the accounts of Systron-Donner Corporation and all of its subsidiaries after elimination of intercompany accounts and transactions.

Earnings per Share: Primary earnings per share are based on the weighted average number of shares outstanding (1,690,821 and 1,690,686 for 1977 and 1976, respectively). Equivalent common shares represented by stock options have not been included in either 1977 or 1976 since the effect would be immaterial or anti-dilutive.

Fully diluted earnings per share are based on the weighted average number of shares outstanding and equivalent common shares from dilutive stock options as a result of the year-end market price being in excess of the option price.

Foreign Currency Translation: Foreign operations principally include current assets and liabilities and property, plant and equipment. Current assets, excluding inventories, and current liabilities of foreign subsidiaries are translated into United States dollar equivalents at exchange rates in effect at fiscal year end. Inventories and property, plant and equipment accounts are translated at the rates in effect at the time the asset was acquired. Earnings statement accounts of foreign subsidiaries are translated into United States dollar equivalents using average rates of exchange in effect for the year. Gains and losses resulting from the translation of currencies and foreign exchange conversion are included in the results of operations for the year. Net gains of $80,000 were recorded in 1977; net losses were $198,000 in 1976.

Depreciation and Amortization: Depreciation and amortization of property, plant and equipment is based upon an equal charge per year over the estimated useful lives of fixed assets acquired.

Purchased patents, rights, drawings and technical data are amortized over their estimated useful lives. Goodwill is being amortized over periods of ten and forty years.

Inventory: Inventories are valued at the lower of cost or market. Cost is generally determined on a first-in first-out basis, and market is based on estimated realizable value.

Revenue Recognition: Revenues from sales of merchandise are recorded based on shipment of such products.

Contracts currently in progress are principally of the straight fixed-price type. Sales are recorded as deliveries are made. Costs are accumulated by contract and charged to cost of goods sold at rates based on periodic review of the relationship between the total estimated costs and sales. Provisions are made for prospective losses and anticipated cost overruns as the facts become known. Contracts entered into by the Company, with minor exceptions, call for delivery within a twelve month period.

Research and Development: Expenses are charged against income as incurred.

MEDICAL AND OTHER HEALTH SERVICES

COMMUNITY PSYCHIATRIC CENTERS
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions have been eliminated in the accompanying consolidated financial statements.

The excess of investment in subsidiaries over net assets acquired resulting from acquisitions subsequent to 1970 is being amortized on a straight-line basis over periods up to 40 years.

Marketable Securities:

Marketable securities are carried at the lower of aggregate cost or market at the balance sheet date.

Property, Buildings and Equipment:

Depreciation is generally computed on the straight-line method based on the estimated useful life of each building or item of equipment.

Estimated useful lives of depreciable property are principally as follows:

Buildings and improvements	20-40 years
Furniture, fixtures and equipment	5-10 years

Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred, whereas major betterments are capitalized. The cost and allowance for depreciation of property disposed of are deducted from the appropriate accounts on disposal.

Capitalization of Interest:

Interest incurred in connection with development and construction of hospitals is capitalized as part of the related property. Amounts capitalized to date are not material.

Deferred Loan Costs:

Loan costs incurred in obtaining long-term financing are amortized over the life of the related loans.

Deferred Charges and Other Assets:

Initial start-up costs incurred in connection with expansion projects are amortized over three years, commencing generally with the fiscal year following the year in which the project is completed.

Contractual Allowances:

Net operating revenues include amounts estimated by management to be reimbursable by Medicare, Blue Cross and other third party programs under the provisions of cost reimbursement formulas in effect. Amounts received are generally less than the established billing rates of the Company and the difference is reported as a contractual allowance and deducted from operating revenue. Final determination of amounts earned is subject to audit by the intermediaries. In the opinion of management, adequate provision has been made for any adjustments that may result from such audits. Differences between estimated provisions and final settlement are reflected as charges and credits to operating revenues in the year finalized.

Stock Options:

Proceeds from the exercise of stock options are credited to Common Stock, to the extent of par value, and the balance to additional paid-in capital, except when shares held in the treasury are issued, the difference between the cost of the treasury shares and the option price is charged or credited to additional paid-in capital. No charges or credits are made to earnings with respect to qualified options granted or exercised. Income tax benefits derived from exercise of non-qualified stock options are credited to paid-in capital.

Earnings per Share:

Earnings per share have been computed based upon the weighted average number of shares of Common Stock and dilutive Common Stock equivalents (stock options) outstanding during the year. Fully diluted earnings per share have been determined as stated above, adjusted as to options for market prices at the end of the period.

Investment Credit:

Investment credit has been accounted for using the "flow-through method," whereby federal income taxes have been reduced in the year in which the credit is utilized.

Reclassifications:

Certain reclassifications of 1975 amounts have been made to conform with current year classifications.

HILLHAVEN, INC.

Summary of Significant Accounting Policies

The significant accounting policies applied in the financial statements are as follows:

Basis of Consolidation—

The accompanying consolidated financial statements include the accounts of Hillhaven Inc. and its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Health Care Revenue—

A portion of the company's patient care revenue is derived from payments under the Federal Health Insurance for the Aged Act (Medicare) and under similar programs administered by certain states (Medicaid). Revenue received from these programs is based in part on cost reimbursement principles which are subject to judgmental interpretation and to audits which could result in adjustments to revenue. Audits of the cost reports for years through March 31, 1976 have been completed for most of the operating facilities. Significant amounts of Medicare and Medicaid revenue received in the current year and lesser amounts in previous years have not yet been audited or approved by program intermediaries. Management believes that it has properly applied cost reimbursement principles in the determination of revenue from these programs.

The company has elected to use accelerated depreciation methods for cost reimbursement purposes under certain of these programs, while it uses straight-line methods for financial statement purposes. Reimbursement resulting from the difference in depreciation has been deferred and will be taken into income in future years.

Inventories—

Inventories, which primarily consist of merchandise held for resale, are valued at the lower of cost (first-in, first-out) or market.

Costs in Excess of Net Tangible Assets Acquired—

The excess of cost over value of tangible net assets acquired is being amortized over periods ranging from 5 to 40 years. Amortization for the years ended March 31, 1977 and 1976 was $206,000 and $95,000, respectively. Included in 1977 amortization is a write-off of $103,000 resulting from management's decision to dispose of certain undeveloped properties.

Property, Plant, Equipment and Leasehold Improvements—

Provision is made for depreciation and amortization by the straight-line method over the estimated useful lives of the related assets: 3 to 12 years for equipment, 20 to 50 years for buildings and the primary lease terms for leasehold improvements. Maintenance and repairs are charged to expense as incurred. Major renewals or betterments are capitalized as additions. Upon sales or disposition of an asset, the difference between depreciated cost and the proceeds or salvage recovery is charged or credited to income.

Unamortized Loan Fees—

Fees and other costs incurred in connection with obtaining term financing have been capitalized and are being amortized over the term of the respective loans, generally by the interest method.

Federal Income Taxes—

The company and its subsidiaries file consolidated federal income tax returns. Deferred income taxes are provided for depreciation, deferred Medicare and other deductions for income tax purposes which differ from amounts recorded for financial reporting purposes because of timing differences. Investment tax credits are accounted for on the "flow through method," whereby taxes are reduced for such credits in the year realized.

Earnings per Share—

Earnings per common and common equivalent shares have been based on the weighted average number of shares outstanding during each year and the assumption that all dilutive stock options have been exercised at the beginning of the year (or date of grant if during the year) and the proceeds used to purchase shares of the company's common stock at the average price during the year.

NATIONAL HEALTH ENTERPRISES, INC.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

Inventories

Inventories, which consist primarily of drugs, food and supplies, are valued at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment including health care facilities leased to others is recorded at cost less a provision to reduce certain property to net realizable value (see Note 2). Interest expense related to the funds borrowed to construct new or expand existing facilities is capitalized as part of the building cost until construction is completed.

Property and equipment is depreciated on the straight-line method based upon the following estimated useful lives:

Buildings and improvements	20 to 40 years
Equipment	3 to 20 years
Health care facilities leased to others	40 years

Intangible Assets

The costs of businesses purchased which are not specifically identifiable with the tangible assets acquired are included in the accompanying consolidated balance sheet as excess of cost over net assets of businesses acquired and are being amortized on a straight-line basis over 40 years from the date of acquisition.

The costs related to the issuance of the Company's subordinated convertible debentures and bank debt were deferred and are being amortized over the term of the related indebtedness.

Patient Care Revenues

Major portions of the Company's revenues are funded pursuant to federal, state and local medical assistance programs, primarily Medicaid. Continuation of these revenues is dependent upon governmental policies. Revenues received under these programs are based in part upon cost reimbursement principles and are subject to audits by state and federal agencies which could result in adjustments to revenues. Cost reports have been filed through fiscal 1976 for all facilities participating in the programs and the majority of the reports have either been approved as filed or audits of the reports have been completed. Management believes no material adjustments to the recorded revenues will be necessary.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return and separate state tax returns. Deferred income taxes are provided for the recognition of timing differences in reporting certain items of income and expense for tax purposes. Deferred income taxes are provided primarily for accelerated methods of depreciation, capitalized interest, use of the cash basis method of tax reporting for certain subsidiaries, deferred gains on the sales of certain facilities, provisions for losses on the disposition of certain facilities and certain receivables.

Investment tax credits are applied as a reduction of income taxes using the flow-through method. The amount of investment tax credits applied was $110,000 in each of the years ended March 31, 1977 and 1976.

Income per Common Share

Per share computations are based on the weighted average number of shares of common stock outstanding during each period, retroactively adjusted for a one for five reverse stock split effective March 31, 1977 (see Note 6). Shares issuable under outstanding stock options have not been included since the dilution is immaterial. Fully-diluted per share information, assuming conversion of the subordinated convertible debentures, is not presented since the effect would be anti-dilutive. The number of common shares used in the computation of income per share were 1,273,703 and 1,279,178 in the years ended March 31, 1977 and 1976, respectively.

MINING COMPANIES

FREEPORT MINERALS COMPANY
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Basis of Consolidation. Freeport Minerals Company consolidates in its financial statements major subsidiaries except Freeport Indonesia, Incorporated, and Freeport Queensland Nickel, Incorporated, whose operations are located in foreign countries and are accounted for under the equity method.

Investments in affiliates that are 20 to 50 percent owned are stated at cost plus equity in their undistributed earnings since acquisition.

Inventories. Inventories are generally stated at the lower of average cost or market.

Exploration and Development Costs. The Company charges income with exploration and preliminary development costs as they are incurred. Development costs, including intangible drilling costs, applicable to mineral properties and oil and gas wells deemed capable of commercial production are capitalized and are included in the property accounts.

Depreciation and Amortization. The Company computes depreciation and amortization of property, plant and equipment over estimated useful lives, generally on the unit-of-production method for producing mineral properties and on the straight-line method for oil and gas and other assets. The cost of any property retired, less any salvage, is generally charged against accumulated depreciation and amortization.

Capitalized lease acquisition costs for nonproducing oil and gas properties are amortized over the basic term of the lease or until the lease is either condemned (in which event the remaining balance is entirely written off) or proven as containing commercially recoverable reserves (in which event the remaining balance is written off over the productive life of the reserves).

Pension Costs. Prior service costs are amortized over a 20-year period and, together with current service costs, are charged against income. The Company funds all amounts charged against income.

Income Taxes. Investment tax credits are reflected in income over the estimated average productive lives of the assets to which they relate.

NEWMONT MINING CORPORATION
Summary of Significant Accounting Policies

1—Principles of Consolidation

Companies Owned More Than 50%

The consolidated financial statements include the accounts of the Corporation and all of the domestic and foreign subsidiaries in which the Corporation's ownership is more than 50%.

Companies Owned 20% to 50%

Investments in companies in which the Corporation's ownership is between 20% and 50% are reported on the equity basis of accounting. The Corporation's equity in net income or loss of affiliated companies is included in the Statement of Consolidated Income and its equity in net income or loss since dates of acquisition less dividends received is added to or deducted from the cost of investments and included in Investments at Equity on the Consolidated Balance Sheet. A Summary of Condensed Financial Data for these companies is presented on page 27.

Companies Owned Less Than 20%

Investments in companies owned less than 20% which have quoted market values are recorded at cost, as the aggregate cost thereof is less than the aggregate quoted market values. Investments in companies without quoted market values are recorded at cost. Both types of investment are presented on the Schedule of Investments on page 26. Dividends received from such companies are included in the Statement of Consolidated Income.

2—Translation of Foreign Currencies

Foreign currency amounts included in the consolidated financial statements have been translated into U.S. dollar equivalents at appropriate rates of exchange. Current assets (except inventories), current liabilities and long-term debt have been translated at current rates of exchange. All other assets and liabilities have been translated at historical rates. Income and expense accounts have been translated at average rates for the year, except for cost of sales, depreciation, depletion and amortization of property, plant and capitalized mine development costs which have been translated and charged to operations based on their historical costs. Translation adjustments have been included in the Statement of Consolidated Income in the periods in which they occur.

Translation gains and losses have had no material effect on 1976 and 1975 net income.

3—Property, Plant and Mine Development

Expenditures for new facilities or expenditures which extend the useful lives of existing plant and equipment are capitalized. Interest on borrowed funds attributable to investment in major new facilities is capitalized until operations commence. Neither interest expense capitalized nor the amortization of prior years' capitalized interest was material in 1976 or 1975.

Maintenance and repairs are charged to operating costs and expenses as incurred.

Investments in property and plant are depreciated and depleted over their estimated productive lives, principally on the straight line and unit-of-production methods.

Mine development costs incurred either to expand the capacity of operating mines, to develop new ore bodies or to develop mine areas substantially in advance of current production are capitalized and charged to operations on the unit-of-production method based on the estimated tons of ore to be recovered. Mine development costs incurred to maintain current production are included in operating costs and expenses.

If it is determined that an investment in property, plant and capitalized mine development costs will not be returned over the productive life of the property, the unrecoverable portion of such investment is charged to costs in the year such determination is made. Gains or losses from normal sales or retirements of assets are included in income or expenses.

4—Exploration, Research and Investment Evaluation

Expenditures for general exploration, research and investment evaluations are charged to operating costs as incurred.

5—Inventories

Inventories of ores, metals and non-metallic products are stated principally at the lower of average cost or net realizable values, except that inventories of Foote Mineral Company are stated at cost on a last-in, first-out basis.

Inventories of materials and supplies are stated at average cost.

6—Income Tax Expense

Deferred income taxes result from timing differences in the recognition of accounting transactions for tax and financial reporting purposes, principally relating to depreciation, mine development costs, investment gains and estimated taxes to be paid on distribution of net income of 20-50% owned companies.

Investment tax credits are recognized as a reduction in U.S. income taxes in the year the assets are placed in service.

7—Pension and Retirement Plans

The Corporation has several trusteed pension and retirement plans which are mainly noncontributory. Pension costs are determined annually by independent actuaries, are funded currently and include current service costs and provision for the amortization of prior service costs over periods not to exceed 40 years.

Total pension and retirement plan costs for 1976 were $11,237,000 ($9,662,000 in 1975). The actuarially computed values of vested benefits of certain plans exceeded the assets on a market value basis of the related pension funds at the latest valuation dates by approximately $33,651,000.

The Corporation's pension and retirement plans were amended in 1976 to conform with the rules and regulations of the Employee Retirement Income Security Act of 1974. It is estimated that the effect of these amendments on the actuarially computed value of vested benefits and prior service costs is immaterial.

8—Audit Committee

An Audit Committee, comprised of three outside directors of the Corporation, meets at least twice yearly with representatives of the Controller's Department and with the Corporation's independent auditors. The Committee periodically reviews corporate accounting policies, procedures, internal controls and the scope and results of the auditors' examination of the financial statements. The Committee reports to the Board of Directors.

THE NORTH AMERICAN COAL CORPORATION

Notes to Consolidated Financial Statements

Note A—Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Intercompany accounts have been eliminated.

Inventories: Inventories are stated at the lower of cost or market determined on a first-in, first-out basis.

Depreciation, Depletion and Amortization: Depreciation, depletion and amortization are provided in amounts sufficient to amortize the cost of related assets over their estimated useful lives and are calculated by the following methods: equipment and certain mine plants—straight-line method; remaining mine plants, coal lands and leaseholds—units-of-production method based on estimated recoverable tonnages determined by Company engineers.

Expenditures for maintenance, repairs and renewals are charged to operations and betterments are capitalized.

Pension Plan: The Company and its subsidiaries have a noncontributory pension plan covering substantially all of their salaried employees. The companies' policy is to provide for and fund current service cost and the amortization of prior service cost over 30 years.

Investment Credit: The investment credit is accounted for by the flow-through method.

Black Lung Benefits: The Company and its subsidiaries are liable under the Federal Coal Mine Health and Safety Act of 1969, as amended, to pay coal workers pneumoconiosis (black lung) benefits to eligible employees, former employees and dependents, with respect to claims filed by such persons on or after July 1, 1973. The companies are also liable under various states' statutes for black lung benefits.

The companies are self-insured for the cost of black lung benefits relating to the current operations in Ohio and certain operations in Pennsylvania. Provisions are being made currently in sufficient amount to amortize the actuarially computed liability for black lung benefits over the estimated remaining lives of the various mines.

The companies have commercial insurance coverage for benefits payable relative to the remaining Pennsylvania mines. Under agreements with the insurance carrier, an escrow account has been established to fund and facilitate payment of black lung claims and related costs. These companies have indemnified the insurance carrier against losses in excess of the escrow account balance.

The provision for these benefits is included in the current selling price of coal sold under long-term agreements of the companies.

The extent of claims from former employees or closed mines is not determinable, but the Company believes that, in the aggregate, they will not be significant and, therefore, it is not currently providing for them.

Earnings per Share: Net income per share of Common Stock has been calculated on the average number of shares outstanding during each year.

READING & BATES OFFSHORE DRILLING COMPANY
Notes to Financial Statements

(A) Summary of Significant Accounting Policies

Consolidation—The consolidated financial statements include the accounts of the Company and all of its significant majority-owned subsidiaries and its 50% interests in the accounts of two joint ventures (the "Company"). Investments in less than 50%-owned ventures and a 50%-owned company are accounted for by the equity method.

Total assets were located in the following areas at September 30, 1976 ($ thousands):

United States	$115,129
Mobile drilling equipment located in international waters	113,952
Foreign areas:	
Indonesia	75,330
Other	23,346
Total assets	$327,757

Foreign Currency Translation—Foreign currency was converted to U.S. dollars at appropriate exchange rates. There are no material foreign currency transactions because substantially all receipts and disbursements in foreign operations arise from transactions in U.S. currency.

Inventories—Materials and supplies are stated at the lower of average cost of market. Crude oil is stated at market value as of year-end.

Depreciation—Depreciation of property and equipment other than foreign oil and gas properties is computed on the straight-line method over the estimated useful lives of the assets. Depreciation rates are summarized as follows:

Drilling equipment	8⅓% to 20%
Oil and gas equipment	7%
Construction equipment	12½% to 33⅓%
Other	10% to 33⅓%

Maintenance, repairs, renewals and betterments, in general, are charged to expense as incurred, except that major renewals and betterments which extend the life of the asset as a whole, or increase the value thereof, are capitalized.

Retirements or other disposals of property and equipment involving less than an entire unit or property are credited to the asset account. Both the asset and accumulated depreciation are relieved for disposals of entire units or properties and any gain or loss on disposal is credited or charged to income. The cost, less salvage, of depletable properties is charged to the accumulated depletion account when the properties are disposed of.

Domestic Oil and Gas Properties—Intangible drilling and development costs on successful domestic oil and gas wells are capitalized. These costs, together with leasehold costs, are depleted on the company-wide method based on estimated recoverable reserves of the leases. Dry hole costs are charged against income as incurred.

Foreign Oil and Gas Properties—All costs, including dry hole costs and interest, incurred in the acquisition, exploration and development of foreign oil and gas properties have been capitalized. The Company's share of costs of producing foreign oil and gas properties is amortized by the unit-of-production method based on its interest in the estimated recoverable reserves of each contract area.

Nonproducing Properties—Effective October 1, 1974, the Company adopted the policy of amortizing the costs of all significant nonproducing oil and gas properties over their estimated holding period, in any event not to exceed ten years. If such a property is relinquished before the end of its estimated holding period, the unamortized cost is charged against income. If a property becomes productive, the original gross capitalized cost is transferred to producing leasehold cost and depleted on the unit-of-production method. Previously the costs of nonproducing oil and gas properties were charged against income when the properties were relinquished. The new method of accounting was adopted because it will more accurately match expense with revenue by systematically writing off the costs of such nonproducing oil and gas properties. The accounting change decreased net income for the year ended September 30, 1975 by $429,000 or $.07 per share. The cumulative effect of retroactive application of the new method on years prior to October 1, 1974 was $1,436,000 or $.23 per share, after deducting related income tax of $454,000, and has been deducted from income during the year ended September 30, 1975.

Capitalized Interest—The Company capitalizes interest applicable to the construction of drilling units and the acquisition, exploration and development of foreign oil and gas properties because interest constitutes a cost of these assets. Interest capitalized represents the average annual interest rate of borrowings applied to the average cost of drilling units or properties in the process of being constructed or developed. The effect of capitalizing interest increased net income for 1976 and 1975 by $1,077,000 and $4,003,000, respectively.

Deferred Income—Deferred income consists of advances for future general and administrative expenses on a construction contract, proceeds from business interruption insurance on a drilling unit destroyed in 1976 and gain realized on the sale and leaseback of the drillship "Douglas Carver." The advances on the construction contract will be included in results of operations when the related expenses are incurred, the business interruption insurance is being amortized over a two-year period and the gain on the sale and leaseback is being included in income over the term of the lease.

Contract Revenue—Income from pipeline construction contracts is recorded on the percentage-of-completion method.

Deferred Income Taxes—Deferred income taxes are provided for timing differences in reporting certain transactions for financial and tax purposes. Deferred income taxes were not provided during periods prior to January 1, 1975 for intangible drilling and development costs ("IDC") which are deducted as incurred for federal income tax purposes but which are capitalized in the financial statements. The tax/financial differences related to IDC were considered permanent benefits because of the future benefits of percentage depletion.

Effective January 1, 1975, the Tax Reduction Act of 1975 eliminated percentage depletion on the production of oil and gas, except for retention of reduced percentage depletion on certain classes of domestic production. In recognition of the elimination of percentage depletion, the Company adopted the policy of providing deferred income taxes on tax/financial differences in reporting IDC originating from January 1, 1975 forward. No deferred income taxes were provided on the past accumulated difference between tax and financial IDC. At September 30, 1976 the cumulative amount of IDC on which deferred income taxes had not been provided was about $15,000,000.

Investment Tax Credits—Investment tax credits are used to reduce the provision for income taxes under the "flow-through" method.

Retirement Plans—The Company has noncontributory pension plans covering all employees. The total pension expense for 1976 and 1975 was $1,938,000 and $430,000, respectively, which includes the amortization of past service costs over approximately forty years. The Company's policy is to fund pension cost accrued. The unfunded past service cost at September 30, 1976 was about $7,000,000.

Earnings per Share—Earnings per common share and common equivalent share are based on the weighted average number of shares outstanding during each year. Common stock equivalents include Stock Purchase Warrants and Stock Options issued after June 1, 1969.

Earnings per common share assuming full dilution are based on the shares outstanding above, plus the number of common shares that would have been issued assuming all of the Class A Capital Stock, Preferred Stock, certain Stock Purchase Warrants, certain Stock Options, and 5½% Convertible Subordinated Debentures outstanding at the beginning of each period or date of issue, if later, had been converted into Common Stock at those dates, less the number of common shares assumed to have been purchased with the proceeds from the exercise of Stock Purchase Warrants and Stock Options. Class A and Preferred dividend requirements and interest net of income taxes on the Convertible Debentures have been eliminated in such computation.

SUMMIT ENERGY, INC.
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Summit Energy, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Property and Equipment

Property and equipment are stated at cost or at amounts considered to be the fair value of the Company's common stock exchanged for certain oil and gas properties. An allowance was established in prior years to reduce the net carrying value of oil and gas properties to their fair value based on the estimated discounted future net cash realization of the proven oil and gas reserves.

The Company uses the full cost method of accounting for its oil and gas properties. Under this method, all acquisition, exploration and development costs are capitalized as incurred. Capitalized costs applicable to domestic oil and gas properties are amortized by the unit-of-production method based on total estimated domestic proven recoverable reserves as determined by the Company's engineer. If foreign oil and gas reserves are found, capitalized costs associated with such foreign operations will be amortized on a country-by-country basis as the reserves are produced. Costs applicable to foreign cost centers are written off if activity in the applicable areas is suspended (note 2).

Buildings and other equipment are depreciated by the straight-line method based on estimated useful lives ranging from 3 to 33 years.

Maintenance and repairs are charged to operations as incurred; property replacements and betterments are capitalized. Gain or loss is recognized only on the disposition of oil and gas properties involving significant reserves.

(c) Translation of Foreign Currency

Accounts of foreign subsidiaries are stated in United States dollars. In general, current assets and liabilities are translated at the year-end exchange rate. Property and equipment are translated at the rates in effect at acquisition dates. Income accounts are translated at average monthly rates, except for depletion, depreciation and amortization, which are translated at rates in effect when the respective assets were acquired. Resulting exchange gains or losses, immaterial amounts in 1976 and 1975, are reflected currently in operations.

(d) Proceeds from Interstate Gas Sales

The Company recognizes income on proceeds from interstate gas sales under a small producer's exemption certificate. This certificate exempts certain aspects of interstate gas sales from direct regulation by the Federal Power Commission (note 4).

(e) Federal Income Taxes

Intangible development costs, dry holes and certain other expenditures relating to oil and gas properties are deducted currently for Federal income tax purposes but are capitalized and amortized for financial statement purposes. The Company does not provide for deferred income taxes on these items because future statutory depletion in excess of leasehold cost is estimated to exceed these timing differences. At July 31, 1976, cumulative exploration and development expenditures capitalized for financial accounting purposes and deducted for Federal income tax purposes on which deferred taxes have not been provided were approximately $875,000.

Investment tax credits are applied as a reduction of income taxes in the year realized.

(f) Earnings (Loss) per Common Share

Earnings (loss) per common share is based on the weighted average number of shares outstanding during each year after giving effect to the one-for-five reverse stock split (note 5). Shares issuable upon exercise of stock options and warrants were not used to compute earnings (loss) per common share as the effect of their inclusion is either immaterial or antidilutive.

WESTMORELAND COAL COMPANY

Summary of Significant Accounting Policies

Consolidation Policy. The consolidated financial statements include the accounts of the Company and all subsidiaries after elimination of intercompany balances and transactions. The Company carries its investment in a 36% owned partnership at its equity in the net assets. The excess of the Company's investment cost over its percentage interest in the underlying net assets of the partnership is amortized by the straight-line method.

Short-term Investments. Short-term investments consist primarily of U.S. Government obligations and, in addition, short-term, high grade money market instruments. They are carried at cost which approximates market value.

Inventory Valuation. Inventories are stated at the lower of cost or market. Cost for inventories of the subsidiary which manufactures roof bolts is determined under the last-in, first-out (LIFO) method. Cost for all other inventories is determined under the average cost method.

Property, Plant and Equipment. Property, plant and equipment are carried at cost and include expenditures for new facilities and those expenditures that substantially increase the productive lives of existing plant and equipment. Maintenance and repair costs are expensed as incurred. Mineral rights are depleted at a rate based upon the cost of the mineral properties and estimated recoverable tonnage therein. Depreciation of plant and equipment is determined generally by the straight-line method over the estimated useful lives. For certain types of plant and equipment, the Company shortened the estimated useful lives in 1976 and adopted accelerated depreciation in 1975. These changes had an immaterial effect on net income. When an asset is retired or sold, its cost and related accumulated depreciation are removed from the accounts. The difference between undepreciated costs and proceeds of disposition is recorded as gain or loss. Fully depreciated plant and equipment remaining in use are not eliminated from the accounts.

Interest during the construction period and development costs of mines in the preoperating stage are capitalized. The interest is directly related to the long-term financing required to construct and develop mines. These costs are amortized against production after commercial operations commence. No interest was capitalized in 1976 or 1975.

Income Taxes. The Company has provided deferred taxes for the income tax effect resulting from timing differences between financial statement pretax income and taxable income. The investment tax credit, to the extent allowable, is applied as a reduction of the provision for income taxes.

Pneumoconiosis Benefits (Black Lung). The amount charged to expense for Federal and certain state pneumoconiosis benefits is based on the estimated cost that would have been incurred had the Company been insured by workers' compensation insurance programs provided by the various state governments. The Company has received permission from the Secretary of Labor for self-insurance of benefits. The Company has created a trust, by agreement with an independent trustee, to fund liabilities of the Company for Federal and certain state pneumoconiosis benefits. Amounts not funded with the trustee are included in accounts payable and accrued expenses.

State pneumoconiosis benefits are provided generally on an actuarial basis once a claim has been approved by the state. The Company is self-insured for this liability which is included in the reserve for workers' compensation.

MOTION PICTURE PRODUCTION AND DISTRIBUTION COMPANIES

CABLECOM GENERAL, INC.

Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of Cablecom-General, Inc. and all subsidiaries (companies owned over 50%) plus the percentage interest in buildings, equipment, revenues and expenses of theatres jointly owned and contractually operated by Video Independent Theatres, Inc., a wholly-owned subsidiary.

The investments in companies 50% or less owned are accounted for on the equity method.

Inventories: Theatre and sound equipment inventories are stated at lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment: Property, plant and equipment is recorded at cost. Betterments, major renewals and the installation of new connections on subscribers' premises are capitalized. Additions include materials, applicable labor and overhead. The Company has not constructed any major new distribution systems since 1972, and therefore interest has not been capitalized since that time.

Expenditures for maintenance and repairs have been charged to expense as incurred.

The costs of property, plant and equipment sold, replaced, abandoned, retired or otherwise disposed of are either estimated and charged to accumulated depreciation or, together with accumulated depreciation thereon, removed from the accounts and the resultant gain or loss reflected in operations.

Depreciation is provided principally on the straight-line method over the estimated useful lives of assets as follows: distribution systems, 10-15 years; theatre equipment, 2-10 years; buildings, 10-30 years; and other equipment, 3-15 years.

Franchises and Deferred Charges: Franchises, principally the excess of purchase price over net assets acquired, are recorded at cost and amortized on a straight-line basis from 7 to 40 years.

Debt issue costs are amortized based upon the maturity of respective debt issues.

Costs in connection with original franchise applications (none in 1976 or 1975) are deferred to the extent a reasonable expectation of franchise award exists. Expenditures relating to unsuccessful franchise applications are charged to operations.

When deemed recoverable, the Company has followed the practice of deferring the excess of costs over revenues of newly activated cable systems (none in 1976 or 1975) arising from the first 18 months of operation or until a breakeven point is reached, whichever first occurs. Amortization (none in 1976 or 1975) over eight years begins at the end of the deferral period. Marketing costs incurred in the initial solicitation of major areas newly constructed (none in 1976 or 1975) are amortized over three years.

Income Taxes: Certain items are accounted for differently for financial reporting purposes than for income tax purposes. The principal differences are depreciation, subscriber installation cost, certain loss provisions and capitalized interest for which deferred taxes have been provided. Investment tax credits are offset against current and deferred taxes using the "flow-through" method.

Earnings per Share: Primary earnings per share of Common Stock are based on the average number of shares of Common Stock outstanding and assumed exercise of dilutive stock options. Fully diluted earnings per share of Common Stock assumed that the 6½% convertible debentures outstanding were converted into Common Stock as of the beginning of the year, and that the interest expense thereon, net of income tax effect, was added to income. Outstanding warrants are not dilutive.

CINERAMA, INC.
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain reclassifications have been made to the 1975 consolidated financial statements to conform with the 1976 presentation.

Film Inventories and Related Amortization

Balance sheet classifications—Current film inventories consist of the unamortized portion of distribution costs associated with the Company's primary market (domestic theatrical) and costs expected to be recovered within one year relative to the Company's secondary markets (foreign theatrical and television). Film inventories also include advances to producers in connection with the acquisition of film distribution rights. Such advances are classified in accordance with the market or recoverable period as described above.

Amortization of film inventories—Substantially all of the Company's distribution agreements provide that the producer receive a percentage of the gross film rentals with the Company assuming all costs of distribution. Such costs (including estimated additional costs to be capitalized) are amortized based upon the income forecast method, i.e., the ratio of total projected costs to total projected revenues as applied to current revenues. Income forecasts are continually reviewed by management and appropriate write-offs of inventories are made when it appears that capitalized costs will not be recovered from future film rentals.

Revenue recognition—Domestic film rentals are recognized on an accrual basis. Film rentals from foreign exhibition are included in operations when the rentals exceed the subdistribution costs. Advance guarantees received from subdistributors are recorded as deferred income and recognized as revenue when earned or forfeited. (See note 2 for revenue recognition policy relative to revenues from television distribution.)

Depreciation and Amortization

Depreciation and amortization of property and equipment is calculated principally on the straight-line basis over the following estimated useful lives:

Cost of ground leases	Life of lease
Buildings and building improvements	15 to 40 years
Theatre leaseholds	Life of lease
Theatre exhibition equipment	4 to 15 years
Furniture and equipment	5 to 10 years
Leasehold improvements	Life of lease or improvements, whichever is shorter

Sales of Theatre Properties

Gains or losses from sales of theatre properties are included in the determination of earnings (loss) before income taxes and extraordinary item since such transactions are expected to occur frequently. Such sales result from a loan agreement (entered into by a subsidiary of the Company) that requires disposal of a substantial portion of the mortgaged property within the five-year period ending August 24, 1977. The proceeds from such sales are generally used to reduce the mortgage debt (see note 4(b)).

PETROLEUM REFINING

GULF OIL CORPORATION
Notes to Financial Statements

Note 1—Summary of Accounting Policies

This summary of the major accounting policies of Gulf Oil Corporation and its consolidated subsidiaries is presented to assist the reader in evaluating the Company's financial statements. The accounting policies employed by the Company are in accordance with generally accepted accounting principles. In those instances in which more than one generally accepted accounting principle can be applied, the Company has adopted and consistently applied in all material respects the accounting principle which it believes most accurately and fairly reflects its operating results.

Exploration and Development Expenditures

Oil and Gas

In the petroleum industry the most significant accounting policy relates to the method of accounting for the exploration for and the development of oil and gas reserves. In this regard, the Company's capitalization policy follows the "successful effort" concept in that drilling and equipment costs are capitalized only on successful wells. All exploratory costs including successful geological and geophysical costs, annual delay rentals on undeveloped leases and all dry hole costs are charged to income as incurred. The costs of drilling discovery wells in remote frontier areas where future production is not reasonably assured are also charged to income as incurred.

Minerals

Exploration and development expenditures are charged to income as incurred until a project is determined to be economically feasible. Subsequent to such determination expenditures are capitalized and amortized in accordance with the Company's policy.

Depreciation, Depletion, Amortization and Retirements

Oil and Gas

Provisions for depreciation, depletion and amortization of lease and well equipment, intangible drilling costs applicable to productive wells, and undeveloped and developed leasehold costs represent charges per unit of production based on the estimated proved and developed oil and gas reserves in each country. Undeveloped leasehold costs in countries where production has not yet commenced are amortized on a straight-line basis over five years.

Minerals

Capitalized exploration and development expenditures are generally amortized when commercial production is obtained, except that the lease acquisition costs relative to oil shale are being amortized over the initial lease period of three years. Provisions for amortization follow the unit-of-production method except that coal is amortized on a straight-line basis over the estimated producing lives of the properties.

Other

Provisions for depreciation and amortization of all other properties are generally determined on the group basis using the straight-line method based on estimated remaining economic useful lives of groups of related properties. Rates are revised when a change in life expectancy becomes apparent.

Retirements, Maintenance and Repairs

Properties retired or otherwise disposed of are eliminated from the property accounts and the amounts, after adjustment for salvage and dismantling expenses, are charged to accumulated depreciation or depletion. Only gains and losses on extraordinary retirements or retirements involving entire groups of properties are charged or credited to income.

Maintenance and repairs are charged to income, and renewals and betterments which extend the economic life of the properties are capitalized.

Principles of Consolidation

The accounts of Gulf Oil Corporation and all subsidiary companies more than 50-percent owned are included in the consolidated financial statements except for those engaged in real estate activities and a domestic financing subsidiary. The real estate and financing subsidiaries (affiliated companies) and all other investments 20 to 50 percent owned (associated companies) are accounted for on the equity method.

Translation of Foreign Currency

Balances and transactions in foreign currencies have been translated to U.S. dollars as follows: inventories, prepaid expenses, long-term investments and properties—at rates current on dates of acquisition; deferred taxes—at the average monthly rate in the year of deferral; accumulated depreciation, depletion and amortization and related provisions against income—on the basis of dollar value of the related assets; all other assets and liabilities—at rates current at end of period; and operating income and other expenses—at average monthly rates. Gains or losses on foreign currency translation are included in results of operations in the period incurred.

Inventory Valuation

Crude oil, petroleum products, chemicals and certain merchandise inventories generally are valued at annual average cost applied on the "last-in, first-out" (LIFO) basis, which in the aggregate is lower than market value. Inventories of Canadian subsidiaries generally are valued at the lower of cost applied on a "first-in, first-out" (FIFO) basis or market value. Materials and supplies are valued at cost or less depending on the condition of the items.

Income Taxes

The Company practices interperiod tax allocation with respect to all significant timing differences. The current income tax provision is reduced by the amount of the realizable investment tax credit.

Pensions

Pension costs, which are determined by independent actuaries, are funded as accrued. Prior service costs are amortized and funded over varying periods for the different plans but generally for no more than 15 years.

Interest Costs

Interest costs are charged to income as incurred.

Crude Oil Transactions

In addition to its own production, the Company purchases large volumes of crude oil from other producers and sells crude oil not required for its own use. The Company records such purchases as purchase costs and such sales as revenues except that such transactions of the Company's Canadian subsidiary are excluded from both revenues and costs.

Goodwill

Goodwill arising from acquisitions accounted for as purchase transactions is amortized over its estimated beneficial life. The only unamortized goodwill currently reflected in the consolidated accounts is an insignificant amount recorded in the accounts of the Canadian subsidiary.

Research and Development Expenditures

Research and development expenditures are charged to income as incurred.

Earnings per Share

Earnings per share is calculated based upon the daily weighted average of the number of shares outstanding during the year.

TESORO PETROLEUM CORPORATION

Accounting Policies

A summary of the Company's significant accounting policies is set forth below.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Tesoro Petroleum

Corporation and its significant subsidiaries. All material intercompany accounts and transactions have been eliminated.

Unconsolidated Investments

The unconsolidated investments consist of Trinidad-Tesoro Petroleum Company Limited, a 49.9% owned company, and Commonwealth Oil Refining Company, Inc., a 36.7% owned company (Note A). These investments are carried at cost plus equity in earnings since acquisition less amortization of cost in excess of equity in net assets and less dividends received or declared since acquisition.

Property, Plant and Equipment

The Company follows the accounting policy, generally known as full-cost accounting, of capitalizing dry-hole costs, carrying costs of undeveloped property, geological, exploration, development and other related costs of acquiring oil and gas reserves. Depreciation and depletion of all such capitalized costs are computed on the unit-of-production method based upon estimated recoverable reserves. The amounts invested and recoverable reserves are segregated into two distinct cost centers, one being the United States and Canada and the other being Indonesia, with separate computations of depreciation and depletion provided for each applicable cost center. Additional distinct cost centers are anticipated as the Company expands its foreign exploration and development activities.

Depreciation of other property is provided using the straight-line or declining-balance methods with rates based on the estimated useful lives of the properties. Amortization of leasehold improvements is provided using the straight-line method over the terms of the respective leases.

Major renewals and betterments are added to the property accounts while the cost of repairs and maintenance is charged to profit and loss in the year incurred. With respect to normal dispositions of properties depreciated or depleted on a composite basis, the cost of properties retired or disposed of is charged to accumulated depletion or depreciation, as applicable, and no gain or loss is recognized. With respect to other dispositions, the cost of assets retired or otherwise disposed of and the applicable accumulated depletion or depreciation are removed from the accounts, and the resultant profit or loss, if any, is reflected in current earnings.

The Company follows the policy of capitalizing interest on borrowings to provide funds for the construction of new plants, or major additions to existing plants, as part of the respective project costs during the period of construction. This policy was adopted to amortize such costs during the estimated useful lives of the related assets. Interest is capitalized by applying the interest factor to the cumulative net additions incurred during each month to the extent such additions are financed through borrowed funds.

Inventories

During 1974 the Company adopted as its cost basis the last-in, first-out (LIFO) method of valuing domestic inventories of refined products and domestic and Indonesian inventories of crude oil. Prior to 1974 these inventories were valued at the lower of cost on the first-in, first-out (FIFO) method or market except for crude oil inventories in Indonesia which were valued at current market prices. All other inventories are valued principally at the lower of cost (generally on a FIFO basis) or market.

The LIFO method was adopted to achieve a better matching of current costs against current income and to conform more closely to U.S. petroleum industry practice.

Other Assets

Deferred debt expense is being amortized over the term of the related debt. Deferred preoperating costs are amortized over a period of three to five years. Costs of investments in consolidated subsidiaries in excess of net assets at dates of acquisition include amounts attributable to businesses acquired prior to November 1, 1970. These costs are considered to have a continuing value to the Company and, in accordance with accounting principles in effect at that time, are not being amortized. Cost of investments in excess of net assets of businesses acquired subsequent to October 31, 1970 are being amortized over appropriate lives not exceeding 40 years. Purchased patents are amortized over the remaining lives of the patents, and patent development costs are expensed as incurred.

Income Taxes

Intangible development, exploration, geophysical and other related costs incurred in connection with the exploration and development of oil and gas properties have been deducted for Federal income tax purposes but capitalized for financial purposes. Deferred taxes have been provided on these differences under the "prospective net" method from January 1, 1975, the effective date of the repeal of percentage depletion under the Tax Reduction Act of 1975 (see Note F of Notes to Consolidated Financial Statements).

Deferred income taxes have been provided on other timing differences between taxable and financial income (such as accelerated tax depreciation) to the extent that current income taxes have been reduced.

The equity in the undistributed earnings of the unconsolidated foreign investment (Trinidad-Tesoro Petroleum Company Limited) is not included in the United States taxable income of the Company until received in the form of dividends. Deferred United States income taxes on such undistributed earnings have not been provided as they are anticipated to be offset by the availability of deemed paid foreign tax credits attributable to such income at the time of receipt. The necessity of having to use these deemed paid taxes as a credit could affect the United States tax benefit of other foreign taxes. Under various agreements, the payment of dividends by Trinidad-Tesoro was restricted until June 30, 1974, and earnings until that date were used to fund that company's capital expenditure program and debt payments. Therefore, no deferred foreign withholding taxes have been provided with respect to such earnings. The Company has provided deferred foreign withholding taxes relative to earnings of Trinidad-Tesoro subsequent to June 30, 1974 for earnings which might reasonably be expected to be paid out in dividends.

No deferred taxes are provided on the undistributed earnings of those foreign subsidiaries not included in the Company's consolidated Federal income tax return because of management's policy that the undistributed earnings of those subsidiaries will be permanently reinvested.

Retirement Plan

The Company has a noncontributory retirement plan which became effective January 1, 1969. Pension costs, including amortization of prior service costs over thirty years, are being funded as accrued.

Deferred Compensation

Deferred compensation represents the excess of market value over the sales price of common stock sold to certain officers. The deferred compensation is being amortized over the period from the dates of sales to the dates the shares become unrestricted (the period for which payment for services is being made).

Accounting for Stock Options

Stock options have been granted to officers and key employees under various plans of the Company (see Note H). Upon exercise of the stock options, the par value of the shares is credited to common stock and the remainder of the proceeds from the sales is credited to capital surplus. The excess, if any, of the aggregate fair market value at the dates of grant over the aggregate option prices is being treated as additional compensation to the recipients ratably over the exercise period (generally three years).

Earnings per Share

Primary earnings per common and common equivalent share (common shares issuable under warrants and options when the market price of common stock exceeds the exercise prices of the warrants and options) are based on the weighted average number of common and common equivalent shares outstanding and on earnings after deducting preferred stock dividend requirements. Fully diluted earnings per share are based on the assumption that the convertible debentures and convertible preferred stock were converted into common shares as of the beginning of each period in which they have a dilutive effect.

Translation of Foreign Currency

In October, 1975 the Financial Accounting Standards Board released Statement No. 8 which established a uniform accounting treatment for translation of foreign currency transactions. For the year ended September 30, 1975 the Company changed its accounting policy to conform with the provisions of this statement. A retroactive change to this policy would not have had a material effect on previously reported earnings.

Accounting for Entitlements

Effective November 1, 1974 the Federal Energy Administration ("FEA") adopted a crude oil cost equalization program for the purpose of equalizing product costs throughout the United States. The regulations provide for the issuance of "entitlements" to be purchased or sold by each refiner based on a formula of crude oil receipts, crude oil refinery runs and allowable product imports.

The Company follows the accounting policy of accruing the estimated liability in the month the crude oil is processed while at the same time deferring such charge until the time that the liability is paid and the costs can be passed through to its customers as increased selling prices.

AMERICAN BROADCASTING COMPANIES, INC.
Notes to Consolidated Financial Statements

Note A: Summary of Significant Accounting Policies:

Consolidation: The consolidated financial statements include the accounts of American Broadcasting Companies, Inc. and its majority-owned subsidiaries. Substantially all investments in other companies which are at least 20% owned are reported at cost plus equity in undistributed earnings. The remaining investments are stated at cost less applicable reserves. All significant intercompany transactions are eliminated in consolidation.

Television Program Rights, Production Costs and Advances: Television program rights, production costs and advances primarily represent amounts paid less amortization based on usage for network programs and rental periods for local station programs. Management estimates that a major portion of the costs will be charged to operations within one year and substantially all of the remaining balance in the subsequent year.

Depreciation: Property and equipment is depreciated principally on a straight-line basis for financial reporting over the estimated useful lives of the various classes of depreciable assets. Substantially all properties are depreciated on an accelerated basis for tax purposes where permitted and the resulting reduction in current taxes is deferred. Leasehold improvements are amortized on a straight-line basis over the period of the lease or over the estimated life of the improvements, whichever is shorter.

Intangibles, less Amortization: Unamortized cost of intangibles represents the excess of cost over underlying net tangible assets of companies acquired. Intangibles amounting to $19,785,000 at January 1, 1977 ($20,756,000 at January 3, 1976) acquired prior to 1970, which are currently considered to have continuing value, are not being amortized. The remaining intangibles amounting to $17,826,000 at January 1, 1977 ($18,390,000 at January 3, 1976) are being amortized on the straight-line method based on their estimated useful lives not exceeding forty years. Amortization of intangibles amounted to $1,502,000 in 1976 and $1,621,000 in 1975. An intangible amounting to $190,000, considered to have no continuing value, was charged to earnings in 1976.

Income Taxes: Income tax expense differs from amounts currently payable because certain items are reported in the statements of consolidated earnings in periods which differ from those in which they are subject to taxation. Deferred tax items are classified in the accompanying balance sheets as current or non-current according to the classification of the related asset or liability. At January 1, 1977, net estimated future tax benefits of $23,286,000 are classified as prepaid expenses and net deferred taxes payable of $3,129,000 are classified as other long-term liabilities. At January 3, 1976, net estimated future tax benefits of $21,023,000 are classified as prepaid expenses and $2,073,000 as other assets.

Investment tax credits are accounted for on the "flow-through" method.

Pension Plans: The unfunded past service costs of the Company's contributory retirement plans are amortized over a period not exceeding thirty years. It is the Company's policy to fund pension costs accrued.

COX BROADCASTING CORPORATION
Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of Cox Broadcasting Corporation and all subsidiaries except Cox Cable Communications, Inc. The operations of purchased businesses are included from the effective dates of acquisition.

Unconsolidated Subsidiary

The investment in Cox Cable Communications, Inc., 56% owned, is stated at equity in the underlying net assets, and the Company's share of the annual earnings of that subsidiary is included in net income. The Company expects the subsidiary's retained earnings to be reinvested indefinitely; accordingly, no related deferred income taxes have been provided.

Broadcast Program Rights

Rights to programs available for broadcast are initially recorded at the amounts of total license fees payable under the license agreements and are charged to operating expense generally on the basis of program usage. The portion of the unamortized balance expected to be charged to operating expense in the succeeding year is classified as a current asset, with the remainder classified as noncurrent. The liability for broadcast program rights is not discounted for imputation of interest since the effect is not material.

Feature Film Productions

Revenues from feature film productions are recorded after deducting distributors' expenses. The production cost of films is amortized by charges to operating expense based upon the ratio of income earned to estimated total income to be earned from primary and secondary markets. The unamortized cost of completed films allocable to primary markets is classified as a current asset.

Plant and Equipment

Plant and equipment are stated at cost less depreciation. Depreciation is provided using principally the straight-line method at rates based upon estimated useful lives of 20 to 33 years for buildings, 5 to 20 years for broadcasting and other equipment, and 10 to 20 years for land improvements.

Intangible Assets

Intangible assets represent the cost of purchased businesses in excess of the values ascribed to the net tangible assets received. Network affiliation contracts, FCC licenses, and goodwill acquired in business combinations initiated prior to November 1970 are not amortized; such intangible assets acquired in business combinations initiated after October 1970 are amortized by the straight-line method over 40 years. Leaseholds, subscription lists, and employment and other contracts are amortized by the straight-line method over 2 to 17 years.

Pension Costs

Current and prior service cost accrued under the noncontributory pension plan is being funded. Effective January 1, 1976 the prior service cost amortization period was increased from 20 years to 40 years.

Investment Tax Credits

Investment tax credits are accounted for by the "flow through" method. Under this method federal income tax expense is reduced in the period investment tax credits are reported in the financial statements.

Broadcasting Revenue

Broadcasting revenue is recorded after deducting advertising agency commissions. National sales representative and staff sales commissions are included in selling expense.

The fair value of barter and trade-out transactions is included in broadcasting revenue and broadcasting expense. These transactions represent advertising time exchanged for program material, merchandise, or services.

Income per Share

Net income per common share is computed by dividing net income, reduced by dividends on special preferred stock, by the weighted average of common shares outstanding during each year. The potentially dilutive effect of stock options outstanding is not significant.

METROMEDIA, INC.

Summary of Significant Accounting Policies

Definition of Fiscal Year

The Company's fiscal year approximates a calendar year. Fiscal year 1976 ended January 1, 1977 and comprised 52 weeks; fiscal year 1975 ended January 3, 1976 and comprised 53 weeks.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary companies, all of which are wholly owned, after elimination of material intercompany items.

Films Owned or in Production

The Company capitalizes all expenditures related to the production of films for television use. Income is recognized based on billings less amortized cost calculated on the income forecast method for each individual production.

Film License Rights

Rights to broadcast films are recorded as an asset, at cost, when licenses are executed together with the related liability. Agreements define the life of the license and/or the number of showings available. The asset is generally amortized based on a standard amortization schedule at rates declining over the term. The liability to licensors is classified as current or long term, in accordance with the payment terms of the various licenses.

Film Distribution Rights

Film distribution rights represent the guaranteed minimum advances due to producers for the rights to distribute television films. Distribution revenue is recognized on the basis of billings and distribution rights are liquidated out of the producers' share of these billings. The amount of rights classified as a current asset represents the amount estimated to be liquidated in the succeeding year. The liability for distribution rights is classified as current or long term in accordance with the payment terms of the agreements.

Property, Plant and Equipment

It is the policy of the Company to capitalize the cost of renewals and betterments by charges to the related asset accounts and, with respect to major property sales, to eliminate the cost and accumulated depreciation with respect to assets sold. Any resulting profit or loss is credited or charged to earnings.

Physical properties are being depreciated, net of salvage, principally on a straight-line basis over the estimated useful lives of the properties.

The rates of depreciation are as follows: buildings, 2½%-10%; broadcast equipment, 5%-16%; advertising structures, 8.3%-11.1%; leasehold improvements over life of lease; and equipment, furniture and other, 10%-33⅓%. Assets, other than buildings, are depreciated on a composite-life basis, and no gain or loss is recognized on normal dispositions. The original cost, net of salvage, is charged to accumulated depreciation.

Intangible Assets

Station licenses, network affiliation agreements and goodwill are considered to have continuing value over an indefinite period, and therefore, are not being amortized except as to assets acquired after October 31, 1970 which are being amortized on a straight-line basis over forty years. Amounts assigned to contracts acquired are being amortized on a straight-line basis over the anticipated term of the respective contracts.

Earnings per Share

Primary earnings per share is based on the weighted average number of common shares outstanding and dilutive common stock options as determined by the average market price during the period (6,736,000 in 1976 and 6,553,000 in 1975). Fully diluted earnings per share are based on the weighted average common shares outstanding and dilutive common stock options as determined by the market price of the common stock at the end of the period (6,750,000 in 1976 and 6,553,000 in 1975).

TAFT BROADCASTING COMPANY
Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All material intercompany amounts are eliminated. Investments in unconsolidated affiliates are carried on an equity basis.

Television and Feature Films

Television and feature films are stated at the lower of amortized cost or market. Substantially all of the costs of completed films are amortized by charges to earnings in the proportion that the net revenues received for each series bears to the estimated total of such revenues to be received. Estimates of net revenues are reviewed periodically and amortization is adjusted accordingly.

Revenues received from television networks are taken into income substantially on the dates the films are telecast. Revenues earned from syndication of films by independent distributors are recorded when reported by the distributors. Revenues from films syndicated by the Company are recorded when the films are available to the licensee, and when certain other conditions are met.

The current portion of television and feature films substantially includes the unamortized costs of films in release allocated to the primary market, television films in production which are under license agreements to the networks, and amounts allocated to secondary markets estimated to be realizable within one year. Other costs related to film production are classified as noncurrent assets.

Film Contract Rights

Film contract rights acquired for television are stated at cost, less amortization. These costs are charged to operations on the straight-line basis as follows: for film rights acquired prior to April 1, 1976, over the contract period; for film rights acquired after March 31, 1976, over the contract period or estimated number of available showings whichever results in the greater aggregate amortization. This change in policy, which does not have a material effect on net earnings, was made to conform the amortization policy to the recommendation of the Accounting Standards Division of the American Institute of Certified Public Accountants. The costs of film contracts estimated to be charged to operations during the next fiscal year have been classified as current assets.

Property and Equipment

Approximately 73% of the depreciable assets are depreciated on the straight-line method and the remainder on accelerated methods.

Depreciable lives are: Land improvements, 8 to 20 years; Buildings, 8 to 33 years; Operating and other equipment, 3 to 20 years; and Leasehold improvements over the life of the lease.

Maintenance, repairs and minor renewals are charged to operations. Additions and betterments are capitalized. Disposals or retirements of property and equipment, other than normal disposals or retirements of amusement park assets, are eliminated from the accounts and gain or loss reflected in the consolidated statement of earnings. Normal retirements or disposals of amusement park assets depreciated using composite rates are removed from the accounts and no gain or loss is recognized.

Capitalized Interest

To properly reflect the cost of capital assets, the actual interest incurred on borrowed funds directly related to the development and construction of property during the construction period is capitalized by the Company and Family Leisure Centers, Inc., a joint venture corporation. Had the companies expensed interest as incurred, the effect on net earnings for the Company would have been immaterial in 1977 and 1976.

Contracts, Broadcasting Licenses and Goodwill

Contracts, broadcasting licenses and goodwill represent the excess of the consideration paid for the purchase of businesses over the amounts assigned to the net identifiable assets acquired. Intangibles arising prior to November 1, 1970, are stated at cost and are not being reduced until such time as a decrease in their value becomes evident. Intangibles, aggregating $1,658,198 at March 31, 1977, related to businesses purchased after October 31, 1970, are stated at cost, less amortization and are being amortized over periods ranging from 6 to 40 years.

Income Taxes

Investment tax credits are recorded as a reduction of Federal income taxes on the "flow-through" method when realized.

The Company provides deferred income taxes for timing differences in reporting certain transactions for income tax and financial statement purposes.

Earnings per Share

Net earnings per common and common equivalent share is computed on the basis of the weighted average number of common shares outstanding during the year, plus the assumed exercise of all dilutive stock options, and assuming the exercise of warrants during those periods in which the average market price of the Company's common stock was in excess of the exercise price for the warrants. Stock options are reflected on the "treasury stock" method, and warrants on the "if converted" method.

Fully diluted earnings per share is not set forth separately because the resulting per share amounts would not be materially different from net earnings per common and common equivalent share.

REAL ESTATE—AGENTS, BROKERS AND MANAGERS

AMERICAN APPRAISAL ASSOCIATES, INC.
Notes to Consolidated Financial Statements

1. Summary of Accounting Policies

a) Basis of Consolidation—

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

b) Depreciation, Amortization, Maintenance and Repairs, and Disposal of Fixed Assets—

The Company depreciates its fixed assets using an accelerated method for book and tax purposes except for two major pieces of computer equipment, which are depreciated using the straight-line method of depreciation for book purposes. The estimated useful lives on which depreciation is based are as follows:

	Estimated Useful Lives (Years)	
Land Improvements	8-15	
Buildings	45-50	
Leasehold Improvements	5-10	(or life of lease)
Furniture and Fixtures	5-15	
Equipment	3-15	
Film Library	5	

Maintenance and repair expenditures are charged to operations as incurred. Expenditures for betterments and major renewals are capitalized. When assets are sold or retired, the cost and related accumulated depreciation and amortization are removed from the accounts in the year of disposal, and any resulting gain or loss is recorded in earnings.

c) Cost in Excess of Net Assets of Acquired Companies—

This item, often referred to as goodwill, effective April 1, 1973, is being amortized on a straight-line basis over 20 years. $90,451 carried in other accounts was reclassified to goodwill in 1977. Amortization expense was $138,247 in 1977 and $151,927 in 1976. Accumulated amortization was $641,291 at March 31, 1977.

d) Investment Tax Credit—

The Company follows the practice of recording the investment tax credit as a reduction of the provision for income taxes in the year realized.

e) Foreign Affiliates and Subsidiaries—

The financial statements of all wholly-owned foreign subsidiaries are translated into U.S. dollars and included in the Company's consolidated financial statements. Earnings statements are translated at the monthly average exchange rates for the year. Balance sheet accounts are translated at the year end exchange rate except for property, and equipment, accumulated depreciation and equity accounts which are translated at the historic rates. Translation losses of $19,958 and $50,000 were charged against earnings in 1977 and 1976, respectively.

Investments in foreign affiliates, in which the Company has a direct ownership of less than 50% all of which are minor, are recorded on the cost method because the Company is not able to significantly influence these operations.

f) Accounting for Appraisal Contracts—

The Company reports fees from appraisal and other contracts generally on a percentage of completion method for large contracts. Smaller contracts, usually less than a year in duration, are reported on the completed contract method. In certain cases, billings are made in advance of the time fees are recognized as earnings. Such amounts are shown as fees billed but not earned. Provision is made for any anticipated losses or reduced profit estimates on contracts in progress in the period in which they become known.

Accumulated costs and expenses on appraisal contracts in progress consist only of "out-of-pocket costs" for labor, labor related benefits, direct travel and other reimbursable charges, and are not in excess of net realizable value. Accumulated costs used in the computation of earnings from operations for the two years ended March 31, 1977, are summarized as follows:

March 31,	
1975	$ 809,568
1976	1,401,850
1977	1,834,050

VAN SCHAACK & COMPANY
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Significant accounting policies followed by the Company are as follows:

Consolidation

The accompanying consolidated financial statements include the accounts of Van Schaack & Company and its subsidiaries, all of which are wholly owned. All significant intercompany transactions have been eliminated in consolidation. Investments in partnerships and syndicates are stated at lower of equity or market.

Depreciation

Depreciation is provided principally on the straight-line basis, based on estimated useful lives as follows:

Leasehold improvements	4 to 20 years
Office equipment	10 to 20 years

Goodwill

Represents the unamortized excess of the cost over net tangible assets of businesses acquired. Goodwill is amortized over periods not exceeding 40 years, based on the continuing evaluation by management of future periods to be benefited.

Income Taxes

Deferred taxes on income result from the recognition of the income tax effect of timing differences in reporting for tax purposes certain gains from sales of investments under the installment method, certain commission and commitment fees on the cash basis and the deferral of losses on collection of receivables and decline in value of investments. Investment tax credits are applied as a reduction of income taxes on the flow-through method. The income taxes provided for 1976 and 1975 are less than normally expected in relation to pretax income, principally as a result of investment tax credits ($65,000 in 1976 and $16,000 in 1975) and lower capital gains rates on the sale of investments.

Pension Plan

The Company has a noncontributory retirement plan covering substantially all salaried employees. Prior service costs, which were $982,000 at December 31, 1976, are amortized over a period of 40 years. The Company's policy is to fund pension costs as accrued. The actuarially computed value of vested benefits exceeded the value of the pension fund assets by $738,000 and $1,012,000 at January 1, 1976 and 1975, respectively.

Capitalization of Interest and Other Expenses

In order to reflect the cost of carrying properties, the Company capitalizes interest on borrowed funds and certain other expenses in connection with real estate held for sale or development. During 1976 and 1975, the Company capitalized interest charges of $120,000 and $158,000 applicable to real estate held for sale or development at the end of those years.

REAL ESTATE—INVESTMENT TRUSTS

BAIRD & WARNER MORTGAGE AND REALTY INVESTORS
Notes to Financial Statements

1. Summary of Significant Accounting Principles

The Trust operates as a Real Estate Investment Trust under Sections 856-860 of the Internal Revenue Code and intends to distribute substantially all of its annual taxable income to its shareholders. No provisions for income tax payments are required for the years ended July 31, 1977 and 1976.

In 1976, taxable income exceeded financial statement net income, primarily because of the necessity to continue accruing income for tax purposes on certain assets placed on a non-accrual basis for financial statement purposes. In addition, not all the components of the Trust's provision for possible losses were considered deductible currently for Federal income tax purposes. These factors resulted in taxable income for 1976 of approximately $1,001,000 which was approximately $1,102,000 greater than reported income. Consequently, in order to maintain the Trust's tax status, it was necessary for the Trust to distribute to shareholders dividends which exceeded the income reported for financial statement purposes (note 10). Taxable income for 1977 is presently estimated to be approximately $146,000 which is approximately $250,000 less than reported income. This resulted from recoveries of income not accrued for financial statement purposes and from a provision for possible losses for Federal income tax purposes which was greater than that for financial statement purposes. The Trust may in future periods again report income for financial statement purposes which exceeds taxable income. In such case, the Trust's policy would be to limit dividends to the amount of taxable income in order to retain real estate investment trust status.

Investment income is reported as earned on the accrual basis of accounting; however, the Trust does not accrue investment income after uncertainties as to collectibility become known.

Provision for possible losses is based on the Trust's evaluation of the investment portfolio and prevailing economic conditions.

Real estate acquired through foreclosure is carried at the amount of net advances on the loan plus accrued interest recognized thereon through the date of foreclosure. Also included are costs of acquiring title, and preserving and improving the property. Where a foreclosed property is liquidated on a unit basis (such as a condominium project) and a final profit is expected, the Trust recognizes profits on a pro rata basis as sales proceeds are received. The allowance for possible losses includes expected losses on foreclosed properties.

Loan discounts are recorded when initial disbursements are made and are amortized as interest income over the term of the related notes on a straight-line basis.

Depreciation of buildings and improvements is provided over the estimated useful lives of 25-45 years using the straight-line method.

The deferred underwriting commission and debt expense relate to the 6¾% convertible subordinated debentures and are amortized on a straight-line basis over the term of the debentures as interest expense.

REALTY INCOME TRUST
Notes to Financial Statements

1. Accounting Policies

General

The Trust has elected to be taxed as a real estate investment trust under the provisions of the Internal Revenue Code and intends to distribute 100% of its taxable income to shareholders within the prescribed time limits, and accordingly, no provision for income taxes has been included in the accompanying financial statements.

The accompanying financial statements have been prepared on the accrual basis of accounting; however, the Trust files its income tax returns and makes distributions to shareholders using the cash basis of accounting.

Investments in Real Estate

Investments in real estate are shown at cost less accumulated depreciation. The Trust, for both financial reporting purposes and federal income tax purposes, depreciates its properties using the straight-line method over their estimated useful lives ranging from twenty to fifty years.

Foreclosure Property

Property acquired through foreclosure or upon lease termination is recorded at cost. Cost for property acquired through foreclosure of mortgage investments is the unpaid principal balance of the related loan including accrued interest and unpaid real estate taxes through the date of foreclosure, as well as costs incurred to secure title to the property. Cost for property acquired on termination of land purchase leasebacks is determined by adding to the Trust's original investment the unpaid balance and delinquent interest on prior debt and all costs incurred in connection with the lease termination. Appropriate provision for possible losses on the ultimate disposition of any property acquired through foreclosure or upon lease termination is included in the allowance for possible losses on investments.

Wrap-Around Mortgages

Wrap-around mortgages and related interest are recorded net of prior debt positions for both balance sheet and income statement purposes.

Allowance for Possible Losses

The allowance for possible losses is determined by the management and Trustees of the Trust based on a quarterly review of the investment portfolio in accordance with the Statement of Position on Accounting Practices 75-2 for Real Estate Investment Trusts issued by the American Institute of Certified Public Accountants in June, 1975, (the "AICPA Statement"). The AICPA Statement requires review of individual investments and a provision for possible losses to reduce the investments to the lower of cost or estimated net realizable value. In estimating net realizable value, consideration is given to such factors as the estimated selling price of a property if exposed for sale in the open market allowing a reasonable time to find a purchaser; the estimated cost to complete, improve and dispose of the property; and the estimated costs of holding the property (including an interest factor).

In the course of determining the overall adequacy of the allowance for possible losses, the management of the Trust has, of necessity, made various assumptions in arriving at estimated holding periods, future occupancy and rental rates, costs (including its cost of capital) during the holding period, operating expenses, and capitalization rates. These assumptions and management's estimates have been based on the best information currently available. The present condition of the economy and the real estate market are such that it is not possible to preclude the possibility of additional losses from unexpected adverse future economic developments. Management is, however, of the opinion that the investment diversity and fundamental strengths of the Trust are sufficient to give it the ability to respond well to any such contingencies (see Note 5).

Debenture Financing Cost

Financing costs related to the issuance of the 8% convertible subordinated debentures have been capitalized and are being amortized over the life of the debentures based upon the amount of the related debt outstanding.

Income Recognition

Rental income from land purchase leasebacks and other real estate equities is recorded as income as it accrues in accordance with lease terms for each investment property. Interest income on mortgage loans is recognized as income as it accrues during the period the loan is outstanding. The Trust's policy with respect to all investments is to accrue interest and rent up to the amount expected to be recovered if, in the opinion of management, there is adequate reason to believe that such interest or rent will in fact be ultimately collected (see "Non-Earning Investments"). Additional income in the form of participation in gross revenue from real estate investments is included in income when it is determined that such additional income has been earned under the terms of the respective agreements.

With respect to certain of its mortgage loans, additional interest in the form of loan fees is spread over the term of the loan using the straight-line method. Standby, gap, and commitment fees are recognized in income over the combined commitment and loan period.

Non-earning Investments

The Trust considers real estate and mortgage investments to be non-earning when a payment thereon is more than 90 days past due unless, in the opinion of management, facts exist which clearly refute the presumption that the recording of income should be discontinued, or facts exist which indicate income recognition should be discontinued prior to 90 days. The Trust classifies foreclosure property as non-earning when the cash return on the investment is less than its cost of capital (5.6% in 1977).

Net Income (Loss) per Share

Net income (loss) per share is computed using the weighted average number of shares outstanding during each period (1,564,123 in 1977 and 1,562,622 in 1976). Fully diluted net income per share is not presented in 1977, because the potential dilution is less than 3%. Inclusion of convertible debentures, options, and warrants outstanding in 1976 would be anti-dilutive, and fully diluted net income per share is not presented for this reason.

Recent Developments

In June, 1977, Statement of Financial Accounting Standards No. 15 entitled "Accounting by Debtors and Creditors for Troubled Debt Restructuring" was issued by the Financial Accounting Standards Board. Under Statement No. 15, commencing with troubled debt restructurings consummated after December 31, 1977, accounting for receivables, real estate, or other applicable assets received from debtors in full satisfaction of receivables shall be reflected at their fair values at the restructuring dates rather than using a "net realizable value" approach (see Allowance for Possible Losses above) as had been done in the past. Under Statement No. 15, the excess, if any, of recorded investments over the fair value of assets received, is recognized as a loss at the date of consummation.

At this time, management of the Trust cannot predict what impact Statement No. 15 will have on future debt restructurings, if any occur; however, in their opinion, if such Statement had been in effect during 1977, its impact on the accompanying 1977 financial statements would not be material.

LANDMARK LAND COMPANY, INC.
Notes to Consolidated Financial Statements

(1) Significant Accounting Policies:

Consolidation—

The consolidated financial statements include the accounts of Landmark Land Company, Inc. and its subsidiaries (the Company), all of which are wholly owned except for Colmar Suriname Oil Company, Ltd. and Carmel Valley Ranch, Inc. which are 93% and 85½% owned, respectively. Investments in real estate joint ventures are carried in the consolidated financial statements at the Company's equity in the venture's net assets. All significant intercompany items and transactions are eliminated in consolidation.

The cost in excess of the net assets of an acquired company amounting to $429,599 is being amortized by the straight-line method over 40 years from date of acquisition in 1972.

Sales and Profit Recognition—

The Company follows the practice of recognizing income from the sales of homes and homesites, construction and remodeling projects on the completed contract basis. Golf club membership dues and membership charges, which are nonrefundable, are recognized as income currently.

Capitalization Policy—

The Company follows the practice of expensing interest related to properties held for investment or short-term development projects. Interest on debt, real estate taxes and other direct costs related directly to properties and/or projects under long-term development programs are capitalized (not beyond net realizable value) until a saleable condition is reached. Other operating, selling and administrative expenses are charged to expense as incurred.

Inventories—

The inventory of lumber and building supplies is valued at the lower of cost (first-in, first-out) or net realizable value.

Depreciation and Amortization; Maintenance and Repairs and Retirement of Properties—

Property, plant and equipment is stated at cost and depreciated at rates ranging from 3% to 20% on a straight-line basis over their estimated useful lives. Leasehold costs applicable to land are amortized by the straight-line method over the lives of the various leases.

Major renewals and betterments are charged to the property accounts while minor replacements, maintenance and repairs which do not improve or extend the useful life are expensed currently. At the time properties are retired from use or otherwise disposed of, the property and accumulated depreciation accounts are relieved and the resultant gain or loss is reflected in current operations.

Federal and State Income Taxes—

The provision for income taxes is based on all items included in the statement of operations regardless of the period when such items are reported for tax purposes.

NEW MEXICO AND ARIZONA LAND COMPANY
Notes to Consolidated Financial Statements

Note 1—Summary of Accounting Policies:

The following accounting principles and practices conform to generally accepted accounting principles and are described briefly to facilitate the understanding of the information presented in the financial statements.

Basis of Financial Statement Presentation—

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Petrified Forest Wood Company. All significant inter-company transactions have been eliminated. Investments in mining joint ventures are accounted for on the equity method.

Inventories—

Inventories are valued at the lower of average cost or market.

Properties—

Properties are recorded at cost. Depreciation over the estimated useful lives is determined principally on the declining balance method for rental properties and the straight-line method for all other properties and equipment.

Maintenance and repairs are charged to income as incurred and renewals or betterments are capitalized.

When assets are retired, the asset and accumulated depreciation are removed from the respective accounts and any profit or loss on the disposition is credited or charged to income.

Deferred Income—

Deferred income consists of advance deposits on uranium sales and rents collected in advance. The advance deposits on uranium sales will be recorded as revenue when products are shipped to the buyer. The rents collected in advance represent annual rental payments in advance of the lease year and are considered earned ratably over the lease year for financial statement purposes.

Lease Bonuses—

Lease bonuses represent amounts received from lessees as consideration over and above any rental and royalty payments for signing exploration leases and are recognized as income in the year the lease is executed.

Income Taxes—

Deferred income taxes are provided primarily to recognize the difference between financial and tax reporting relating to depletion on lease bonuses received, recognition of gain on land sales, development costs of a mining joint venture and differences in the amount of investment tax credit recognized.

The investment tax credit is utilized to reduce the estimated income tax provision under the flow-through method.

Pension Costs—

Pension costs charged to current earnings include charges for current service costs plus 10% of prior service costs as computed by independent actuaries. It is the Company's policy to fund pension costs as accrued.

Earnings per Share—

Earnings per share computations are based upon the weighted average number of shares outstanding during the year, or 1,050,157 shares in 1976 and 1,049,665 in 1975.

PACIFIC COAST PROPERTIES, INC.
Notes to Consolidated Financial Statements

Note 1—Statement of Significant Accounting Policies

Basis of Financial Statements and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its four wholly-owned subsidiaries. All significant intercompany transactions have been eliminated upon consolidation.

Real Estate

All properties included in inventory of real estate are stated at cost, which is not in excess of net realizable value. Net realizable value is defined as the value which the Company could reasonably expect to receive upon sale of its inventory assuming a prompt but orderly disposition, after giving consideration to its current liquidity problem (see Notes 2, 4 and 12), reduced by costs of disposal and carrying costs (including interest and property taxes) until the projected date of sale. The Company recognizes losses on projects in its inventory in the accounting period in which they become apparent.

The Company follows a policy of capitalizing interest until completion of construction, or in the case of land held for sale, until the property is sold. Loan fees, property taxes, leasing costs and other costs directly related to the inventory of real estate are also capitalized as a cost of the project. Income or loss from the rental operations of completed properties developed by the Company for sale in the ordinary course of business are charged or credited against the carrying value of such properties. There were no such operations in 1976. Obligations incurred by the Company pursuant to rental performance guarantees are reflected in the computation of the cost of real estate sold. There were no guarantees outstanding during 1976.

Depreciation

Office furniture and equipment included in other assets are depreciated on the straight-line method over the estimated lives of five to ten years. The Company does not depreciate those completed properties which it has developed and holds for sale. Maintenance and repairs are expensed as incurred whereas the costs of additional improvements and betterments are capitalized. When depreciable assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts.

Accounting for Sales of Real Estate

Revenues and costs from the disposition of inventory are recognized in conformity with criteria and rules promulgated in an industry accounting guide applicable to real estate transactions issued by the American Institute of Certified Public Accountants.

REAL ESTATE—SUBDIVIDERS, DEVELOPERS, AND OPERATIVE BUILDERS

LEISURE TECHNOLOGY CORP.

Summary of Accounting Policies

A summary of the Company's major accounting policies followed in preparing the accompanying financial statements is set forth below:

Principles of Consolidation

The consolidated financial statements include the accounts of Leisure Technology Corp. and its subsidiaries, all of which are wholly-owned. All significant intercompany transactions have been eliminated in consolidation. Certain amounts in the consolidated financial statements for the year ended March 31, 1976, have been reclassified to conform to 1977 classifications.

Revenue Recognition

Income from sales is generally recorded when title to the property is conveyed to the buyer subject to the buyer's financial commitment being sufficient to provide recordable economic substance to the transaction.

A land sale was contracted on October 19, 1976, and was scheduled to close during fiscal year 1977. Due to minor administrative technicalities, the property was not released from an encumbered mortgage and the closing was delayed until May 5, 1977. Income of $164,000 from this sale was recorded in 1977.

Inventories

Inventories are accounted for under the specific identification method for direct construction costs and under the first-in, first-out method for indirect costs.

Interest on debt and real estate taxes related to land and construction in progress are capitalized as additional costs when incurred and charged to operations at such time as the related inventories are sold. Interest and real estate taxes are charged to operations as incurred on land which has been written down to estimated market value.

Interest capitalized includes interest arising from obligations related to specific items and an allocation of other interest charges based on a ratio of land, construction in progress and community facilities to total assets.

If the Company had followed the practice of charging all interest to operations as incurred, the loss before income taxes and adjustment for inventory, property and other asset write-downs would have been increased by $1,601,000 in 1977, and $3,467,000 in 1976.

Community and Recreational Facilities

The cost of community and recreational facilities of the communities being developed by the Company are being amortized on the basis of units sold, measured against the projected number of units which the facilities will serve.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are carried at cost, less accumulated depreciation. Maintenance, repairs and minor renewals are expensed as incurred and renewals and betterments are capitalized. When an asset is retired or disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to income.

Provision for depreciation is computed substantially on the straight-line method. Annual charges to operations for depreciation are calculated to absorb the cost of property over its estimated useful life.

Deferred Charges and Prepaid Expenses

Deferred marketing and advertising costs represent those costs applicable to contracts entered into during the year and not yet closed at the end of the year. Pre-opening expenses are amortized over 36 months commencing with the opening of the project. Debenture issuance expense is amortized over the term of the debentures.

Federal Income Taxes

Provision is made in the accounts to reflect the inter-period allocation of Federal income tax for timing differences resulting from certain items of income and expense being recorded in different periods for financial accounting and tax purposes. Principal items so treated are interest expense, real estate taxes, marketing and advertising costs and write-downs of inventory, property and other assets.

Investment tax credits are recognized upon realization.

Loss per Share

Loss per common share is based on the weighted average number of common shares outstanding. The weighted average number of shares in 1977 and 1976 does not include the assumed exercise of stock options since the effect in either year would be anti-dilutive. Loss per common share assuming full dilution is not applicable since the inclusion of assumed conversion of the 6¾% convertible debentures would be anti-dilutive in both years. The weighted average number of common shares was 3,519,835 for both 1977 and 1976.

MCKEON CONSTRUCTION

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

(a) Principles of Presentation

Included in other assets is the Company's investment in its insignificant wholly-owned subsidiaries and its investment in other insignificant majority and less than fifty percent owned joint ventures.

(b) Revenue Recognition

Revenues from sales of completed properties are recognized when title has passed, minimum downpayment requirements are met, the terms of any notes received by the Company are such as to satisfy continuing payment requirements, and the Company is relieved of any requirements for continuing involvement in the properties.

(c) Basis of Inventories

Inventories are stated at the lower of cost (determined on an actual project cost basis prorated over the number of units in the project) or market (current net selling price or estimated net realizable value). Financing costs (which includes interest on land and development loans, construction loan service fees and interest on construction loans) and property taxes are capitalized to the date of completion and expensed thereafter. Such financing costs are capitalized because, in the Company's opinion, capitalization results in a better matching of costs with revenues. The rate of interest used in capitalizing such costs is based upon the loan on the specific project. Financing costs are included in cost of sales and expensed as units are sold.

(d) Allowance for Inventory Valuation

The allowance is determined by management by means of periodic reviews of the inventory on an individual project basis using the lower of cost, current net selling price, or estimated net realizable value principles. Current net selling price means the actual or expected price in cash or cash equivalent if sold currently, reduced by direct selling expenses. The estimated net realizable value principle is used when current disposition is unlikely or when management intends to hold or develop the inventory over an extended period. Estimated net realizable value is defined as the estimated sales price in cash or cash equivalents upon subsequent disposition reduced by direct selling expenses, cost of completion or improvement, direct holding costs during the projected holding period and the cost of money for the period to the expected date of disposition. The allowance is charged when actual losses are realized upon ultimate disposition of the inventory. The determination of the allowance for inventory valuation is predicated on the assumption that the Company will be able to dispose of the inventory so valued in the ordinary course of business and not on a liquidating basis.

(e) Depreciation

Depreciation of equipment is provided principally on the straight-line method over their estimated useful lives which range from three to ten years.

Depreciation of two buildings included in property held for investment purposes is provided on the straight-line and double declining balance methods over their estimated useful lives of fifteen and twenty-five years.

(f) Interest Charged to Operations

Interest accrued on loans on completed residential properties, on other loans and on debentures is charged to current operations.

(g) Income Taxes

Income taxes (credits) are provided for all items included in the statements of earnings (loss) regardless of when such items are reported for tax purposes. Deferred taxes result principally from timing differences between the financial statements and tax returns in the recognition of items of income and expense. Investment tax credits are accounted for using the flow-through method.

(h) Per Share Computations

Per share computations are based on the weighted average number of shares outstanding during the year.

SELIGMAN & ASSOCIATES, INC.
Notes to Financial Statements

Note 1.

The Activities and Related Accounting Policies of the Company:

The company and its subsidiaries are engaged in construction, ownership and operation of rental apartments, single and multiple-family residential construction, rental property management and mortgage banking. In addition to construction and sale of single-family homes and condominium units, the company develops and sells multiple-family rental projects to affiliated partnerships in which it is the general partner and operates such projects after sale for a mangement fee.

Reference is made to the third paragraph of Note 11 of Notes to Financial Statements.

Accounting Policies

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements.

Consolidation

The consolidated financial statements include the accounts of all wholly-owned subsidiaries, except the two mortgage banking subsidiaries, Mid-States Mortgage Corporation and The Chase Mortgage Corporation, which are included on an equity basis. The combined financial statements of the mortgage banking subsidiaries are included in Note 12 of Notes to Financial Statements.

All significant intercompany transactions have been eliminated.

Certain amounts in the 1975 financial statements have been reclassified to conform with classifications adopted in 1976 with no effect on net loss.

Revenue Recognition

Sales of single-family homes and condominiums are recorded when construction is completed and title passes. Income from construction under long-term contracts for multiple-family rental projects is recognized on the percentage-of-completion basis. Under this method, the allocable portion of total estimated income on a project, based on work performed and costs incurred, is recorded as income. Substantially all revenues from construction of multiple-family rental projects and property management are derived from transactions with affiliated entities.

Inventories

Inventories are stated at the lower of cost or net realizable value (estimated selling price less costs of completion and disposal). Costs of homes and improved lots in production, condominiums and related land, and land held for future development are determined by accumulating the costs of raw acreage, land improvements, direct construction costs and related interest and property taxes. In addition, condominiums under construction include certain indirect overhead costs related to specific developments, which are charged to operations on a pro rata basis as condominium units are sold. Amounts are removed from inventories by the following methods:

	Method
Homes and improved lots in production	Specific identification
Condominiums under construction and related land	Average Cost
Land held for future development	Specific identification

Rental Apartments

The cost of rental apartments includes the cost of raw acreage, land improvements, direct construction costs and related interest and property taxes. At the time an apartment unit is ready for occupancy, costs are transferred to completed rental apartments, depreciation computed by the straight-line method commences and no additional interest and property taxes related to the unit are capitalized.

Property Taxes and Interest

The company capitalizes property taxes and interest on debt related to inventories and rental apartments from date of acquisition through the completion of development and construction and up to ninety days after substantial completion for unsold single-family homes and condominium units. Interest capitalized includes interest arising from obligations related to specific inventories and rental apartments and an allocation of other interest charges on general borrowings. Capitalization of these costs is in accordance with industry practice and results in the matching of costs and revenues in the period in which inventory is sold or over the life of the completed rental apartment.

SHAPELL INDUSTRIES, INC.
Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

Certain amounts presented in 1975 have been reclassified to conform to the 1976 presentation.

a) Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and all subsidiary companies. All subsidiaries are wholly-owned and all significant intercompany accounts and transactions have been eliminated in consolidation.

b) Revenues:

Sales of single-family residences are recognized after the completion of construction, at the close of escrow when title passes to the customer.

c) Installment Notes Receivable:

Installment notes receivable are carried at their face amount less a discount to provide for a rate of interest equivalent to the market rate prevailing at the time the notes were originated. The unamortized discount at December 31, 1976 and 1975 was $442,000 and $793,000 respectively.

d) Real Estate and Carrying Costs:

Real estate is stated at the lower of cost or net realizable value.

Land and land development costs, including capitalized carrying costs, where applicable, are accumulated by specific development and allocated equally to lots within the development. Construction costs incurred in connection with the development of residential subdivisions (including material, labor, overhead and capitalized interest on construction loans) are charged to individual tracts.

Cost of single-family residences sold is computed on the basis of relative sales value applied to individual tracts within each development.

Carrying costs (property taxes and interest) applicable to land zoned for single-family (detached) developments are expensed as incurred. Carrying costs on land zoned for other uses and interest on construction loans are capitalized. Capitalized interest included in real estate at December 31, 1976 and 1975 approximates $1,069,000 and $1,286,000 respectively. Cost of sales of single-family residences includes capitalized interest of approximately $1,976,000 in 1976 and $1,826,000 in 1975. If the

Company had followed a policy of charging all interest to expense as incurred, the effect would have been to increase net income by approximately $103,000 ($.03 per share) in 1976 and $89,000 ($.03 per share) in 1975.

e) Investments in partnerships are stated at cost adjusted by the Company's equity in the partnerships' results of operations. See Note 2 with respect to construction loans receivable from certain of these partnerships.

f) Operating Rental Properties and Equipment and Depreciation:

Operating rental properties and equipment are carried at cost less an allowance for depreciation. Depreciation is provided on the straight-line and declining-balance methods, based on the estimated useful lives of the assets; 3 to 45 years. Start-up costs on rental properties are charged to expense. Costs of maintenance and repairs are charged to expense, whereas expenditures which materially increase property lives are capitalized.

g) All regional general and administrative costs are expensed as incurred, consistent with practices followed at the Home Office.

RETAILING COMPANIES

GORDON JEWELRY CORPORATION
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries other than two wholly-owned life insurance companies which are stated at equity as explained in note 2. All significant intercompany accounts and transactions have been eliminated.

Installment Accounts Receivable

Current assets include installment accounts receivable maturing more than twelve months from the balance sheet date, in accordance with usual trade practices.

Merchandise Inventories

Inventories are stated generally at the lower of cost (retail method, first-in, first-out or specific items) or market.

Property and Equipment

Property and equipment are carried at cost, and maintenance, repairs and minor renewals are expensed as incurred. When properties or equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited or charged to earnings.

Depreciation of buildings is provided on a straight-line basis over the estimated useful lives of the assets. Depreciation of equipment and fixtures is provided by either the straight-line, declining balance or sum-of-the-years-digits methods at rates based on the shorter of the estimated useful lives of the assets or the lease on the building in which such assets are located. Leasehold improvements are amortized on a straight-line basis over the lives of the respective leases.

Excess Cost Over Net Assets of Consolidated Subsidiaries

The excess, $8,527,149, of cost over net assets of businesses acquired prior to October 31, 1970 is not being amortized because in the opinion of management there is no diminution in value. Amounts arising from acquisitions after October 31, 1970 are being amortized over forty years.

Federal Income Taxes

Investment tax credits are recorded as a reduction of the provision for Federal income taxes in the year realized.

Profits on installment sales are recognized for accounting purposes when the sales are made. Such profits are recognized for income tax purposes by the installment sales method. Applicable deferred Federal income taxes have been provided.

Pension Plan

Pension expense (see note 6) includes amortization of prior service costs over a period of thirty years. The Company's policy is to fund pension costs which are composed of normal costs and amortization of prior service costs.

Net Earnings per Share

Net earnings per common and common equivalent share are based on the weighted average number of Class A and B shares outstanding and shares issuable under outstanding options which were dilutive because the market price of the stock exceeded the exercise price. Earnings per common share assuming full dilution give effect to the assumed conversion of the 5% Convertible Subordinated Debentures and an appropriate reduction of interest expense, net of income taxes.

R. H. MACY & CO., INC.

Summary of Significant Accounting Policies

Principles of Consolidation. The accounts of all majority owned subsidiaries are included in the consolidated financial statements with the exception of certain subsidiaries, the assets, sales, and operating revenues of which are not significant in the aggregate, and Macy Credit Corp. (see pages 18 and 19). Earnings before Federal income taxes of Macy Credit Corp. are applied as a reduction of consolidated interest expense.

Depreciation and Amortization. Provisions are made on a straight-line basis over the shorter of estimated lives or lease terms.

Amortization of Intangibles. Amortization is on a straight-line basis over the life of the intangible.

Deferred Payment Sales. Income on deferred payment sales is reported in full when sales are made. Service charges on such sales are deducted from Cost of goods sold and expenses.

Merchandise Inventories. The value of merchandise inventories is determined by the retail inventory method, using Lifo (last-in, first-out) cost, which is lower than market, for about 54% of the total inventory, and the lower of Fifo (first-in, first-out) cost or market for the balance of the inventory.

Income Taxes. Deferred income taxes result primarily from the use, for tax purposes, of accelerated depreciation methods and the instalment method of accounting for deferred payment sales. The portion thereof resulting from the latter is included with current liabilities. Accumulated investment credits are amortized over the useful lives of the related equipment by reductions of income tax provisions.

Pension Plans. The Corporation has several non-contributory pension plans covering, subject to specified eligibility requirements, substantially all employees. Commencing August 1, 1976, pension costs are being funded as incurred. Previously, amounts were funded in excess of charges to pension expense. Deferred pension charges represent the unamortized balance of the excess funding as of July 31, 1976. Prior service costs are amortized over 20 years.

Earnings per Share. Earnings per share are computed by dividing net earnings, less dividends on preferred shares, by the average number of common shares outstanding during the year. Fully diluted earnings per share assume full conversion of debentures and exercise of stock options at the beginning of year (or later date of issuance).

Reclassifications. Certain reclassifications have been made in the the 1976 financial statements to conform to classifications used in 1977.

SPARTAN FOOD SYSTEMS, INC.

Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Spartan Food Systems, Inc. and its subsidiaries (all wholly-owned) after elimination of significant intercompany accounts and transactions.

Inventories

Inventories which consist of food items and supplies are stated at cost determined on the basis of the latest purchase price which is not in excess of market value.

Property and Equipment

Property and equipment includes the cost of additions and those improvements which materially increase the useful lives of the assets. The cost and accumulated depreciation of assets retired or sold are removed from the asset and accumulated depreciation accounts and gains or losses, if any, are included in income. Repair and maintenance costs are expensed as incurred. Depreciation and amortization is provided using the straight-line and various accelerated methods over the estimated useful life of the asset, except for leasehold improvements for which the lesser of the estimated useful life of the asset or the term of the lease is used.

Franchise Rights

The cost of franchise rights is amortized ratably over the life of the franchise agreements (20 years) from the date retail operations commence.

Income Taxes

The Company and its subsidiaries file a consolidated income tax return. Deferred income taxes are provided for certain expenses which are recognized for income tax purposes in different years than for financial reporting purposes. Investment tax credits are recognized as a reduction of income tax expense in the year utilized.

Leases

Reference is made to Note 2 of the Notes to the Consolidated Financial Statements for accounting policies regarding leases.

Stock Option Plans

The Company has several stock option plans outstanding. No charge to income will result from the exercise of any of the currently outstanding stock options. Upon exercise, the excess of the option price over the par value of the shares issued is credited to paid-in capital.

TOPSY'S INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Topsy's International, Inc., and, except for SaxonS Sandwich ShoppeS, Inc. (See Note 3), its subsidiaries, all of which are wholly owned. All material intercompany accounts and transactions have been eliminated.

Reporting Period

The Company reports on a 52-53 week year ending on the Saturday nearest to July 31.

Inventories

Inventories are stated at the lower of estimated average cost or market.

Property and Equipment

Property and equipment is stated at cost, except that fixtures and equipment in excess of anticipated needs (resulting from unit closings) are written down to estimated net realizable values. Depreciation is computed using the straight-line method and estimated useful lives of 25 years for buildings and five to eight years for fixtures and equipment.

Maintenance and repairs are expensed in the year incurred. Betterments which extend the useful lives of the assets are capitalized. Upon retirement or other disposition, cost and accumulated depreciation are relieved from the accounts, and any resultant gain or loss is included in income.

Bond Discount

Bond discount of $45,576 ($55,225 in fiscal 1976) is being amortized over the term of the indenture agreement (15 years) except that a pro rata portion is written off when debentures are repurchased.

Income Taxes

The Company and its subsidiaries join in filing consolidated federal income tax returns, whereas separate returns are filed for state and local income tax purposes. Investment tax credits are accounted for under the flow-through method.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Notes to Financial Statements

(A) Accounting Policies—The financial statements reflect the application of certain accounting policies described in this note. Other policies and practices are covered in notes (B) and (F).

Consolidation—The consolidated financial statements include the accounts of American Telephone and Telegraph Company (the "Company") and its telephone subsidiaries. The consolidation process eliminates all significant intercompany transactions except as discussed below under "Purchases from Western Electric." The investment in Western Electric Company, Incorporated ("Western Electric"), an unconsolidated subsidiary, and certain other investments (where it is deemed that the Comany's ownership gives it the ability to exercise significant influence over operating and financial policies) are carried at equity (cost plus proportionate share of reinvested earnings). All other investments are carried at cost.

Purchases from Western Electric—Most of the telephone equipment, apparatus and materials used by the consolidated companies have been manufactured or procured for them by Western Electric. Contracts with the telephone companies provide that Western Electric's prices to them shall be as low as to its most favored customers for like materials and services under comparable conditions. The consolidated financial statements reflect items purchased from Western Electric at cost to the companies, which cost includes the return realized by Western Electric on its investment devoted to this business.

Interest Charged Construction—Regulatory authorities allow the Company and its telephone subsidiaries to provide for a return on capital invested in new telephone plant while under construction by including interest charged construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but, under the regulatory process, will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

Depreciation—Provision in the accounts for depreciation (5.3% in 1976 and 5.2% in 1975 of the cost of depreciable plant in service) is based on straight-line composite rates. Depreciation for income tax purposes is provided on different bases and methods as explained under "Income Taxes" below.

Income Taxes:

(1) Under various accelerated depreciation provisions of the tax law, depreciation for income tax purposes on plant placed in service after 1969 is greater than the straight-line depreciation provided in the accounts. In addition, the companies have adopted for income tax purposes shorter depreciation lives than those used for financial statement purposes for certain plant, as allowed in income tax regulations of the Treasury Department. Provision is included in income tax expense for the deferred income taxes resulting from the use of accelerated depreciation and shorter tax lives.

(2) Provisions of the tax law allow for reductions in tax liability for certain construction expenditures. Such reductions, which are captioned "investment tax credits," are accounted for as operating tax expense in the year they occur and are amortized, principally as reductions in operating tax expense, over the life of the plant constructed.

(3) The effective consolidated Federal income tax rate was 40.8% in 1976 and 40.7% in 1975. This rate is determined by dividing Federal income taxes (including non-operating) by the sum of Federal income taxes, Net Income and ownership interest of others in net income—see note (C). The differences of 7.2% and 7.3% in 1976 and 1975, respectively, between the effective rate and the 48% Federal income tax statutory rate are attributable to the following factors:

	1976	1975
a. Earnings applicable to investments in companies accounted for on an equity basis which are reflected net of income tax	1.7%	1.0%
b. Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted for income tax purposes, net of related depreciation adjustments for current and prior years	3.0%	3.1%
c. Interest charged construction which is excluded from taxable income, net of related depreciation adjustments for current and prior years	1.1%	1.6%

d. Profits on telephone plant items purchased from Western Electric, which are capitalized for financial statement purposes but not for tax purposes, and which reduce depreciation expense for tax purposes	(.6%)	(.7%)
e. Amortization of investment tax credits over the life of the plant which gave rise to the credits. Such amortization reduced income tax expense for the years 1976 and 1975 by about \$150,754,000 and \$112,543,000, respectively	2.3%	2.1%
f. Other miscellaneous differences	(.3%)	.2%
Total	7.2%	7.3%

Research and Development—In addition to basic research and fundamental development costs, which are expensed currently, the cost of specific development and design work incurred by Western Electric is related to products manufactured and is included in the cost of such products (see "Purchases from Western Electric" above).

PACIFIC NORTHWEST BELL TELEPHONE COMPANY
Notes to Financial Statements

1. Accounting Policies

The Company maintains its accounts in accordance with the Uniform System of Accounts prescribed for telephone companies by the Federal Communications Commission (the FCC). The financial statements reflect the application of the accounting policies described in this note and have been prepared in conformity with generally accepted accounting principles, which are consistent in all material respects with the accounting prescribed by the FCC, except for revenue refunds (see Note 3).

(a) Purchases from Western Electric—Most of the telephone equipment, apparatus and materials used by the Company have been manufactured or procured for it by Western Electric Company, Incorporated (Western Electric), a wholly-owned subsidiary of American Telephone and Telegraph Company (the American Company). The contract with the Company provides that Western Electric's prices shall be as low as to its most favored customers for like materials and services under comparable conditions. The financial statements reflect items purchased from Western Electric at cost to the Company, which cost includes the return realized by Western Electric on its investment devoted to this business.

(b) Interest Charged Construction—Regulatory authorities allow the Company to provide for a return on capital invested in new telephone plant while under construction by including Interest Charged Construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently, but, under the regulatory process, will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

(c) Depreciation—Provision in the accounts for depreciation (5.5% in 1976 and in 1975 of the cost of depreciable plant in service) is based on straight-line composite rates. Depreciation for income tax purposes is provided on different bases and methods as explained in note 2.

(d) Provision for Pensions and Death Benefits—The Company has a noncontributory plan covering all employees and providing for service pensions and certain death benefits. The Company has an accrual program under which actuarially determined regular payments are made to trust funds that are irrevocably devoted to service pension and death benefit purposes. The total provision for these service pensions and death benefits, including amounts charged to construction, was \$47,752,000 in 1976 and \$41,800,000 in 1975, which represented 17.69% in 1976 and 16.90% in 1975 of salaries and wages. Amendments to the Plan, effective January 1, 1976, adopted pursuant to 1974 union contracts, which provide for improved benefits for all employees, and changes made in compliance with the Employee Retirement Income Security Act of 1974, increased pension accruals in 1976 by about \$1,673,000. Based on the latest actuarial valuation, adjusted to reflect those benefits which became effective January 1, 1977, the Company estimates that the actuarially computed value of vested benefits exceeded the cost of trust fund assets by about \$26,298,000. The accrual program contemplates that there will be available in the funds amounts sufficient to provide benefits as stated in the Plan.

(e) Cash—The Company follows the practice of making certain payments by draft and recording such drafts as accounts payable until such time as the banks honoring the drafts have presented them for payment. The American Company maintains cash and temporary cash investments which the Company may draw on a day-to-day basis to meet its obligations, including coverage for outstanding drafts. Outstanding drafts included in accounts payable amounted to $18,159,000 at December 31, 1976 and $14,945,000 at December 31, 1975.

TRANSPORTATION COMPANIES—AIR

AMERICAN AIRLINES, INC.
Notes to Financial Statements

1. Summary of Accounting Policies

A. Basis of Consolidation. The accompanying consolidated financial statements include the accounts of American's wholly-owned subsidiary, American Airlines de Mexico, S.A. The investment in Flagship International, Inc. (Flagship), a wholly-owned subsidiary primarily engaged in providing hotel and catering services, is carried in the financial statements at cost plus equity in undistributed net earnings.

B. Inventories. Spare parts, materials and supplies relating to flight equipment are carried at average cost and expensed when used in operations. With respect to the spare parts expected to be on hand at the date the aircraft are retired from service, American provides allowances for obsolescence of such parts over the estimated useful life of the related aircraft and engines.

C. Equipment and Property. Provision for depreciation of operating equipment and property is computed by the straight-line method applied to each unit of property, except that spare assemblies are depreciated on a group basis. The estimated useful lives and residual values used for the principal asset classifications are as follows:

	Estimated Useful Life	Residual Value
Boeing 747 and DC-10 aircraft and engines	14 years	15%
Boeing 707 aircraft and engines:		
Acquired 1959 to 1961	*	$100,000
Acquired 1963 to 1968	15 years	$100,000
Boeing 727 aircraft and engines	16 years	10%
Major rotable parts, avionics and assemblies	Life of equipment to which applicable	None to 15%
Improvements to leased flight equipment	Term of lease	None
Buildings and improvements (principally on leased land)	10 to 20 years or term of lease whichever is shorter	None
Ground and other equipment	4 to 10 years	None

*Common retirement date of December 31, 1977.

Expenditures that increase values or extend useful lives are capitalized; maintenance and repairs are charged to expense. Upon the retirement or disposal of property and equipment, other than spare assemblies, the cost and related allowance for depreciation are removed from the accounts. Gains or losses from such disposals are included in income, except that gains on aircraft sales are deferred until the proceeds are realized. Proceeds from the disposition of spare assemblies are credited and the related costs are charged to the allowances for depreciation.

D. Passenger Revenue. Passenger ticket sales are initially recorded as a current liability. Revenue derived from the sale is recognized at the time transportation is provided.

E. Retirement Benefit Plans. American has in effect various retirement benefit plans, most of which are contributory, in which substantially all employees are eligible to participate. American's policy is to fund accrued pension costs.

F. Interest Capitalized. Interest attributed to funds used to finance the acquisition of new aircraft and construction of major ground facilities is capitalized as an additional cost of the related assets. Capitalization of interest ceases when the related assets are placed in service.

G. Federal Income Tax. Provision is made for Federal income taxes that are currently payable or refundable and amounts that are deferred to future periods. The deferred amounts result from the fact that, under the applicable tax statutes and regulations, some items of income and expense are not recognized in the same years for tax reporting purposes as for financial statement purposes. The principal timing difference results from the use of accelerated depreciation for tax reporting purposes and the straight-line method for financial statement purposes. American follows the "flow-through" method in recognizing benefit of investment tax credits.

H. Earnings (Loss) per Share. Primary earnings (loss) per share of common stock are based on the average number of shares of common stock outstanding during the year (1976—28,574,000; 1975—28,549,000). The inclusion of common stock equivalents (stock options) would not have a dilutive effect on primary earnings per share.

Fully diluted earnings per share were determined on the basis of the average number of shares of common stock and common stock equivalents outstanding and assumes the conversion of the subordinated convertible debentures, if such conversion would have a dilutive effect, into common stock. Net earnings applicable to common stock were increased to reflect the elimination of interest and debt expense (less tax effect) related to the convertible debentures. The number of shares used in this calculation for the year ended December 31, 1976, was 32,485,000. Fully diluted earnings per share are not applicable to 1975 since the effect would be anti-dilutive.

OVERSEAS NATIONAL AIRWAYS, INC.
Notes to Financial Statements

1 Summary of Accounting Policies

Basis of financial statements. The Company's investment in its wholly-owned real estate subsidiary, which was acquired in 1976 and the assets of which were sold in 1977, is reflected in the accompanying financial statements on the equity basis of accounting. See Note 6. The Company's investments in its wholly-owned riverboat subsidiaries are also reflected in the accompanying financial statements on the equity basis of accounting prior to their sale in 1976. See Note 5.

Expendable parts, materials and supplies. Inventories of flight equipment, expendable parts and materials and supplies are valued at cost and expensed as consumed. With respect to the expendable parts expected to be on hand at the date aircraft are retired from service, the Company provides a reserve for the obsolescence of such parts over the estimated useful life of the related aircraft.

Equipment. Provision for depreciation of operating equipment and property is computed on the straight-line basis. The estimated useful lives and residual values used for the principal classifications of equipment are as follows:

	Estimated useful life	Residual value
DC-9-30 series jet aircraft, spare engines, parts and assemblies, disposed of in 1976. See Note 3	14 years	15%
DC-8-20/30 series jet aircraft, spare engines, parts and assemblies, retired from service in 1976. See Note 3	6 years	15%
DC-8-60 series spare engines, parts and assemblies. See Note 3	14 years	15%
Improvements to leased flight equipment	Term of lease	None
Ground and other equipment	5 to 10 years	10%

The Company capitalizes expenditures for the overhaul of airframes and amortizes them over the interval to the next airframe overhaul. Other recurring maintenance and repairs are expensed as incurred. Expenditures for improvements which increase values or extend useful lives are capitalized.

The difference between the cost and proceeds from disposition of rotable spare parts and assemblies, depreciated on a group basis, is charged or credited to the accumulated depreciation account. Upon retirement or disposal of other property and equipment, the asset accounts and the related accumulated depreciation accounts are reduced by the amounts included therein for such property and equipment, and gains or losses thereon are included in income.

Developmental and preoperating costs. The costs of training flight crews in connection with the introduction of new aircraft are deferred and amortized over a five-year period. Costs incurred in connection with obtaining various operating authorities are deferred and amortized over a five-year period or the term of the related authority, whichever is shorter.

Employee retirement plans. Several employee groups are covered by pension plans. It is the Company's policy to fund each year's accrued pension costs currently. Prior service costs are generally amortized over a twenty-year period.

Capitalized interest and debt expense. Interest and debt expense attributed to the funds used to finance major projects, such as the acquisition of new aircraft, is capitalized as an addition to the cost of the project. Capitalization ceases at the date the new equipment enters revenue service, at which time amortization over the estimated useful life of the related asset commences.

Deferred federal income taxes. Provision has been made for federal income taxes which are deferred to future periods as a result of timing differences in the recognition of certain income and expense items for financial statement and income tax purposes, and certain potential tax benefits which are precedent to the Company's reorganization of July 8, 1965. The principal timing differences relate to deferred charges, capitalized interest, certain accrued liabilities and the use of accelerated depreciation methods for income tax purposes and the straight-line method for financial statement purposes. In 1976, the Company deferred, for federal income tax purposes, the gain on the repurchase of the DC-9-30 aircraft by the manufacturer. The Company follows the "flow-through" method in recognizing the benefits of investment tax credits.

Earnings (loss) per share. Earnings (loss) per share are based on the average number of shares outstanding (2,317,929 in 1976 and 2,305,370 in 1975). There would be no material dilution of net income per share for the year ended December 31, 1975 if it were assumed that the stock options were exercised and the six percent convertible subordinated notes were converted.

TRANS WORLD AIRLINES, INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Accounting policies and methods of their application that significantly affect the determination of financial position, changes in financial position, and results of operations are as follows:

(a) Consolidation. The consolidated financial statements include all significant majority owned subsidiaries. Minority interest in consolidated subsidiaries is not significant.

(b) Property and Depreciation. Property, equipment and improvements are depreciated to residual values over their estimated useful service lives on the straight-line method. Estimated remaining useful service lives are reviewed periodically for reasonableness and any necessary change is effected at the beginning of the year in which the revision is adopted. The following estimated useful service lives were in effect during 1976 and 1975:

Flight equipment (aircraft and engines, including related spares):

Aircraft Type	Service Life Range (Years)*
Boeing 747	15 to 17
Lockheed L-1011	14 to 18
Boeing 707	13 to 18
Boeing 727	13 to 18
Douglas DC-9	12

*Major modifications are depreciated over the remaining life of the aircraft.

Merchandising equipment:
Vending Equipment—Principally eight years
Other—Two to ten years
Buildings—Twenty to fifty years
Other equipment—Two to twenty years

Leasehold improvements (including modifications to leased aircraft)—Estimated useful life limited by period of lease, including anticipated extension.

Maintenance and repairs are expensed when incurred; major renewals and betterments are capitalized. The cost and related depreciation for properties which have been retired or otherwise disposed of are removed from the accounts and gains or losses on disposition are included in consolidated income.

(c) Inventories. Airline inventories, valued at average unit cost, consist primarily of expendable spare parts used for the maintenance and repair of flight equipment. A provision for obsolescence is accrued at annual rates which will provide an allowance approximating the estimated cost of inventory expected to be remaining at the anticipated retirement date of the related aircraft fleet. Merchandise and supply inventories related to vending, food and hotel services are valued primarily at the lower of average cost or market.

(d) Foreign Exchange. Foreign currency and amounts receivable and payable are translated into United States dollars at current exchange rates on the date of the financial statements. Property accounts are translated at the exchange rates in effect at the dates the related assets were acquired. Revenue and expense transactions, except for depreciation and amortization of property, are translated at average rates of exchange in a manner that produces approximately the same dollar amounts that would have resulted had the underlying transactions been translated into dollars on the dates they occurred. Exchange gains and losses are included in net income for the period in which the exchange rate changes (Note 2).

(e) Goodwill. The unamortized excess of cost over the fair value of net tangible assets of companies acquired is being amortized over a forty-year period on the straight-line method. During 1976 and 1975 $1,124,000 and $1,127,000, respectively, was charged to income.

(f) Airline Revenue Recognition. Passenger ticket sales are not recognized as revenue until the transportation service is rendered. At the time of sale a current liability is established and subsequently is eliminated either through carriage of the passenger by TWA, through billing from another carrier who renders the service, or by refund to the passenger.

(g) Interest Capitalized. Interest on borrowed funds used to finance prepayments on flight equipment purchase contracts is added to the cost of the flight equipment or included in leasehold improvements, if the flight equipment is leased, and amortized over the life of the related equipment. The amount of interest capitalized is determined by applying the current effective interest rate for TWA's long-term borrowings to the total prepayments for flight equipment purchase contracts. The effect of this policy in 1976 and 1975 was to decrease net income $2,320,000 and increase net loss $98,000, respectively, equal to $.17 and $.01 per share on average common shares outstanding.

(h) Income Taxes. TWA and its qualified subsidiaries file a consolidated Federal income tax return and account for investment tax credits on the flow-through method. See Note 3 for further description of TWA's accounting for income taxes.

(i) Pension Plans. Accrued pension cost is funded on a current basis except that prior service benefits are amortized and funded over periods from thirty to forty years. See Note 11 for further description of the plans.

TRANSPORTATION COMPANIES—RAILROAD

CHESSIE SYSTEM, INC.
Notes to Consolidated Financial Statements

(1) Significant Accounting Policies. The consolidated financial statements include Chessie System, Inc. ("Chessie") and its majority-owned subsidiaries, principally The Chesapeake and Ohio Railway Company ("C&O"), 100%-owned, The Baltimore and Ohio Railroad Company ("B&O"), 99.9%-owned, and Western Maryland Railway Company, 93.9%-owned at December 31, 1976.

The financial statements of the railroad companies included in the consolidated financial statements differ in certain material respects from the reports filed with the Interstate Commerce Commission. The principal differences affecting earnings relate to the timing of the recognition of losses on track abandonments and the recognition in the consolidated financial statements of depreciation of C&O grading and tunnel bores.

Transportation properties are carried at values determined by the Interstate Commerce Commission principally prior to 1919 plus additions and betterments at cost and less retirements subsequent to the dates of such valuations. Consistent with the practice generally followed by Class I railroads, no provision has been made in the accounts for depreciation prior to January 1, 1943 on the major portion of road property held on that date.

As prescribed by the Interstate Commerce Commission certain items of road property (principally rails and ties) are not depreciated but are accounted for under an alternative generally accepted accounting method whereby replacements are charged to expense and only additions and betterments are capitalized. Gains and losses on retirements of these items are included in operating accounts. All other transportation properties are depreciated on the straight-line method, principally at rates established by the Interstate Commerce Commission for various groups of assets. Upon the sale or retirement of equipment and depreciable road property, other than items owned by nonrailroad subsidiaries, the cost less the proceeds is charged to the accumulated depreciation account.

Marketable equity securities are carried at the lower of cost or market. The investment in 22% of National Mine Service Company common stock, acquired in October 1976, is carried on the equity method. Other investments in affiliates and other companies are carried substantially at cost. Adoption of the equity method of accounting for such other investments would have no material effect on the consolidated financial statements.

Deferred Federal income taxes have been provided to reflect differences in the timing of deductions for income tax and financial reporting purposes. Investment tax credits are accounted for on the flow-through method.

MISSOURI PACIFIC CORPORATION
Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

Consolidation Principles

The accompanying consolidated financial statements include the accounts of Missouri Pacific Corporation (the Company) and all majority owned subsidiaries, including: Missouri Pacific Railroad Company and its subsidiaries (Missouri Pacific), Mississippi River Transmission Corporation and subsidiary (Transmission), and River Cement Company (River Cement).

Missouri Pacific's investments in less than majority owned terminal railroad companies (joint ventures) and other affiliated companies, where Missouri Pacific has the ability to exercise significant influence over their operating and financial policies, are accounted for under the equity method.

Properties and Depreciation

Railroad properties of Missouri Pacific owned at the date the Company acquired or added to its majority interest in Missouri Pacific are stated at cost determined in accordance with purchase accounting rules to the extent of the Company's ownership interest therein (see Note 2). The remainder of such properties are stated primarily at estimated original cost, as determined by January 1, 1955 Interstate Commerce Commission valuations, plus additions and betterments at cost and less retirements since the dates of valuation. Depreciation is computed using the straight-line method and various group rates prescribed by the Interstate Commerce Commission. Depreciation provisions during 1976 and 1975 were at rates of approximately 3.8% and 3.7%, respectively, for equipment and 2.5% for depreciable road properties. For rails, ties and other track materials, "replacement" accounting is followed. Under this method, replacements in kind are charged to expense while additions and betterments are capitalized. Such properties are not depreciated and the amounts capitalized are charged against income only when the related properties are retired. At December 31, 1976 and 1975 non-depreciable railroad properties, including land and land rights, were approximately $461,000,000 and $474,000,000 respectively.

Gas transmission and storage properties and cement manufacturing and distribution properties are stated at cost and are depreciated on the straight-line method. Gas production properties include gas exploration and development costs under the full cost method of accounting. Under this method, all exploration and development costs are capitalized (to the extent of the estimated value of recoverable reserves) and are amortized on a unit of production method over the lives of the recoverable reserves. During 1976 and 1975, respectively, provisions for depreciation and amortization as a percentage of average depreciable plant balances were 3.7% and 3.6% for gas transmission and storage properties, 10.3% and 11.7% for gas producing properties, and 4.2% and 4.3% for cement manufacturing and distribution facilities. Maintenance and repairs of properties are charged to expense and major renewals and betterments are capitalized. Normal retirements of depreciable property are charged to the appropriate depreciation reserve at cost less salvage.

Income Taxes

Taxes are provided on the basis of items included in the income statement regardless of the period when such items are reported for tax purposes. Investment tax credit is recognized under the flow through method.

Debt, Discount and Related Expense

Discount and expense applicable to long term debt are deferred and amortized over the lives of the respective issues using primarily the interest method. Unamortized discount is deducted from the face amount of such debt (see Note 5). Gain on reacquisition of bonds is generally recorded as income.

Pensions

The Company, Transmission and River Cement have non-contributory pension plans which cover substantially all of their full-time employees. Pension cost accruals are actuarially determined and include normal costs and amortization of prior service costs over a period of ten years. The companies' policy is to fund currently pension costs accrued.

Missouri Pacific has a non-contributory pension plan for substantially all non-union employees (see Note 7). Pension cost accruals include normal costs, amortization of minority interests in prior service costs over a 35-year period ending January 1, 2001, and interest on the recorded unfunded pension liability. Missouri Pacific's policy is to fund currently normal costs accrued and to fund prior service costs over a 30-year period ending January 1, 2006.

Casualty Losses

Casualty losses of Missouri Pacific that are not covered by insurance are accrued and charged to expense as incurred (see Note 9).

Inventories

Inventories are stated at the lower of cost or market. At December 31, inventories were comprised of the following (in thousands):

	1976	1975
Materials and supplies (Average cost)	$52,376	$44,792
Gas stored underground (LIFO cost)	8,606	14,820
Cement (LIFO cost)	2,654	2,294
	$63,636	$61,906

If LIFO inventories had been valued at current replacement costs, they would have been increased by $16,263,000 for 1976 and $9,806,000 for 1975.

SANTA FE INDUSTRIES, INC.

Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Santa Fe Industries, Inc. (Santa Fe) and all entities over 50% owned, directly or indirectly, by Santa Fe. Investments in 20% to 50% owned entities are accounted for under the equity method.

Revenue Recognition

Revenues from rail operations are recognized in income upon completion of service. Expenses relating to shipments for which service has not been completed are charged to income and not deferred. Revenues from sales of oil and gas produced, manufactured products and real estate are recognized in income upon passage of title.

Long Term Construction Contracts

The percentage of completion method is used to account for long term construction contracts. Under this method, revenues recorded represent the aggregate of costs incurred during the year and a portion of estimated profit on individual contracts. A portion of the estimated profit is recognized based on the relationship of costs incurred to total estimated costs; however, no profit is recorded on individual contracts until at least 10% of estimated costs are incurred. Losses on contracts are provided for in their entirety when projected.

Properties

Properties are stated substantially at cost which includes interest incurred during construction. Additions, betterments and replacements other than replacements of track structure are capitalized. Expenditures for maintenance and repairs are charged to income. Upon sale or retirement of units of depreciable railroad and pipeline properties, cost less salvage is charged to accumulated depreciation and no gain or loss is recognized. With respect to all other property units sold or retired, cost and accumulated depreciation are cleared from the accounts and gain or loss is recognized in income.

Depreciation of Properties (Other than Petroleum)

Properties, other than non-depreciable properties and track structure, are depreciated principally on a straight-line basis over their estimated service lives.

The Atchison, Topeka and Santa Fe Railway Company (Railway) accounts for track structure following the "retirement-replacement-betterment" method. Under this method, which is prescribed by the Interstate Commerce Commission and generally represents industry practice, the cost of replacing track structure, less salvage recovered, is charged to income and only the cost of betterments is capitalized. The amounts capitalized are not depreciated, but upon retirement of track structure the entire amount capitalized, less salvage recovered, is charged to income.

Leasehold Interests and Exploratory Costs

All costs incurred in acquiring mineral leasehold interests, consisting primarily of bonus payments, are capitalized and amortized based on past success experience over a weighted average of the initial lease periods. When a lease is proven to be productive, the entire cost is transferred to productive petroleum properties. If a lease proves to be non-productive, the entire cost of the lease is charged against the reserve for leasehold interests when the lease is surrendered. Costs of exploration which do not result in production, principally dry hole costs and annual delay rentals on unexplored leases, are charged to income.

Depreciation and Amortization of Productive Petroleum Properties

Costs of productive wells, both tangible and intangible, costs incurred in defining reservoir limits with respect to offshore leases and costs of productive leasehold interests are depreciated or amortized on a unit of production method based on annual estimates of remaining proved reserves for each defined property. Certain other petroleum properties are depreciated on a straight-line basis. The cost of development drilling which results in dry holes is charged to income.

Inventories

Inventories of materials, supplies and finished goods are valued at the lower of cost (average price or first-in, first-out) or market.

Federal Income Tax

Provisions for federal income tax recognize the tax effects of all transactions entering into the determination of income for financial reporting purposes irrespective of when such transactions are reported for federal income tax purposes. Accordingly, income is charged for tax currently payable and for deferred federal income tax which represents tax reductions resulting from timing differences.

Deferred federal income tax presented on the balance sheet does not represent a liability to the federal government. If the effect of timing differences in future years increases tax currently payable for such years, income will be credited for the amount of such increase with a corresponding reduction in deferred federal income tax.

Investment Tax Credits

Investment tax credits are included in income under the "flow-through" method of accounting.

TRANSPORTATION COMPANIES—TRUCKING AND FREIGHT FORWARDING

ALLIED VAN LINES, INC.

Notes to Consolidated Financial Statements

Note 1—Summary of Principal Accounting Policies

Revenues. Transportation and cargo protection revenues, together with associated costs and expenses, are recognized when shipments are loaded.

Cargo Claims. The Company's liability for physical loss or damage to shippers' property is limited by law unless a greater value is declared and the appropriate tariff charges are paid by shippers. Tariff charges earned, less claims paid and accrued net of amounts chargeable to agents, are included in income currently. Liabilities are recorded to reflect claims currently outstanding plus an estimate of claims expected to be incurred, based on past experience.

Bodily Injury and Property Damage Claims. The Company maintains, through charges to its agents, a reserve for the uninsured portion of bodily injury and property damage claims. The charges to agents are at rates established by the Company which are based upon the historical loss experience of the agents and include legal expenses, insurance premiums and administrative costs required to support the program.

Income Taxes and Investment Tax Credits. Income taxes are provided on net income for financial reporting purposes regardless of the period in which individual items are reported for tax purposes. The principal timing differences between financial and tax reporting relate to depreciation, revenue and cargo claims.

Investment tax credits are accounted for on the flow-through method, which recognizes the benefit in the year in which the tax credits are utilized as a reduction of income tax expense.

Property, Plant and Equipment. Expenditures for additions and betterments are charged to the property accounts; expenditures for repairs and maintenance are charged to income as incurred. Upon sale or retirement of an asset, its cost and the related accumulated depreciation are removed from the accounts, and the resultant gain or loss is included in income.

Depreciation for financial reporting purposes is computed principally by the straight line method based on the estimated useful lives of the assets. Accelerated methods of depreciation are used for income tax purposes.

SCHWERMAN TRUCKING CO.
Notes to Consolidated Financial Statements

A. Summary of Significant Accounting Policies

Basis of Consolidation—The consolidated financial statements include the accounts of Schwerman Trucking Co. and its subsidiaries, all of which are wholly-owned. All material inter-company accounts and transactions have been eliminated.

Accounting for Leasing Operations—The operating method of accounting is used to report the results of operations of the Company's leasing subsidiaries. Revenue is recognized as earned over the terms of the lease, and the cost of the leased equipment is capitalized and depreciated over its estimated useful life.

Property, Plant, Equipment, and Depreciation—The cost of property, plant, and equipment, less estimated residual value, is depreciated on the straight-line method for accounting purposes based upon the following estimated useful lives:

	Years
Revenue equipment	6-10 years
Other equipment	2-10 years
Buildings	25-30 years

Leasehold improvements are amortized over the term of the lease or the estimated useful life, whichever is shorter.

Maintenance and repairs of equipment and properties are charged to expense as incurred; significant improvements are capitalized.

Upon disposal of property and equipment, the cost of the asset retired and the related accumulated depreciation are eliminated from the accounts, and the resulting gain or loss is included in operations.

Operating Supplies and Parts—Replacement parts, fuel and supply items are carried at approximate costs not in excess of market values.

Tires in Service—The cost of tires is excluded from revenue equipment and is amortized on a straight-line basis over twenty-four months at the time the tires are placed in service. Amounts in excess of twelve months' amortization are classified as a non-current asset.

Operating Rights—In the opinion of management, operating rights have not diminished in value and, accordingly, are not being amortized.

Deferred Income Taxes—Deferred income taxes relate to the use of accelerated depreciation methods and expensing the cost of tires in the year of acquisition for tax purposes.

Investment Tax Credits—Investment tax credits are reflected as a reduction of the provision for income taxes in the year in which they are allowable based on accounting income.

Employee Retirement Plans—The Company has a noncontributory retirement plan covering substantially all employees not in a collective bargaining unit. Beginning in 1976, pension expense includes amortization of prior service cost over thirty years. During 1976, the plan was amended to meet the requirements of the Employee Retirement Income Security Act of 1974. In addition, changes were made to the actuarial cost method and certain assumptions used in the computation of pension expense. The effect of all of these changes was not material.

The Company is also required to make payments into certain union pension funds which are not controlled or administered by the Company.

SHULMAN TRANSPORT ENTERPRISES, INC.
Notes to Consolidated Financial Statements

A. Summary of Significant Accounting Policies:

(1) Principles of Consolidation—The consolidated financial statements include the accounts of Shulman Transport Enterprises, Inc. and its subsidiaries, all of which are wholly-owned.

(2) Operating Rights and Deferred Charges—Operating rights represent costs of acquiring authorities to do business as a motor carrier and freight forwarder. No amortization of these costs is being made for authorities obtained prior to November 1, 1970, as management believes that they have a continuing value. Although management believes that rights acquired subsequent to October 31, 1970 have similar continuing value, the original cost of such rights ($103,700) is being amortized over a period of 40 years in order to comply with current generally accepted principles of accounting, which require such amortization.

(3) Investment in Joint Venture Corporations—Investments in joint venture corporations are carried at cost adjusted for the Company's share of earnings or losses since acquisition.

(4) Income Taxes—The Company files a consolidated tax return with its domestic subsidiaries. Foreign taxes are provided on income of foreign subsidiaries, but there is no domestic tax benefit for losses incurred by foreign subsidiaries.

Deferred income taxes arise from depreciation computed by an accelerated method for income tax purposes and the straight-line method for financial reporting purposes.

Prepaid income taxes are attributable to amounts provided for cargo loss claims and doubtful accounts being greater than actual deductions used for income tax purposes.

U.S. income taxes have not been provided on $3,611,000 of unremitted foreign subsidiary earnings as the Company intends to permanently reinvest unremitted foreign earnings outside the United States.

(5) Earnings per Share—Earnings per common share are based on the weighted average number of common shares outstanding during each year. Options and warrants were not considered since the effect of their exercise would be anti-dilutive.

YELLOW FREIGHT SYSTEM, INC.
Notes to Financial Statements

Note 1—Principles of Consolidation and Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of the company and its subsidiaries. All material inter-company accounts and transactions have been eliminated in consolidation.

These financial statements were prepared in accordance with generally accepted accounting principles, and differ from the accounting regulations of the Interstate Commerce Commission (I.C.C.) only in regard to the amortization of operating rights and the accounting for trade-ins of revenue equipment as described below.

Major accounting policies and practices used in the preparation of the accompanying financial statements include:

- Depreciation is computed using the straight-line method and the following useful lives—

Structures	10-30 years
Revenue equipment—	
Linehaul tractors	4 years
Linehaul trailers	6 years
City equipment	8 years
Other operating property	3-10 years

- Maintenance and repairs are charged to operations currently; replacements and improvements are capitalized in the property accounts. When revenue equipment is traded, the basis of the new equipment is adjusted to reflect any difference between the trade-in allowance and the basis of the old equipment. Upon sale or retirement of all other operating property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in other non-operating income.
- The cost of tires, including those purchased with new equipment, is amortized over the estimated tire lives. The unamortized balance of the cost is included in prepayments.
- Operating rights acquired after October 31, 1970 ($10,134,000) are being amortized over a 40 year period.
- Claims and insurance accruals reflect the estimated cost of incurred claims for cargo loss and damage, bodily injury and property damage and workmen's compensation not covered by insurance. These costs are charged to income each year based on historical experience.
- Operating revenues are recognized and the freight bill is prepared at the time the shipment is received from the customer.
- Note 2 describes the accounting for income taxes and investment tax credits.

TRANSPORTATION COMPANIES—WATER

ALEXANDER & BALDWIN, INC.
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Basis of Consolidation: The consolidated financial statements include the accounts of the Company and all subsidiaries, except subsidiaries not considered to be long-term investments.

Agriculture: Costs of growing crops are charged to income in the year incurred.

All raw sugar is sold to California and Hawaiian Sugar Company ("C and H"), a refining and marketing cooperative, as it is produced by the Company. Sugar revenues include estimated net returns from production of the current year to be sold by C and H in the subsequent year.

Ocean Transporation: Revenues and expenses are recognized as specific voyages are completed. Revenues and expenses of voyages in progress at year end are deferred. The deferred expenses of unterminated voyages do not include period costs such as vessel depreciation or charter hire, terminal operating overhead, administrative and general expenses, and interest.

Cost of Securities Sold: The identified certificate method is used in determining the cost of securities sold.

Inventories: Inventories are stated at the lower of cost or market using various cost bases (see Note 2).

Property: Property is stated at cost. Major renewals and betterments are charged to property accounts, while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense currently. Expected costs of regularly scheduled dry-dockings of vessels are accrued. When properties are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and any gains or losses are taken into income.

Depreciation: Depreciation and amortization are provided for principally by the straight-line method; the declining balance and sum-of-the-years-digits methods also are used for certain property acquired after 1953.

Estimated useful lives of property are as follows:

Buildings	10 to 50 years
Vessels	10 to 25 years
Machinery and equipment	3 to 25 years
Utility systems and other depreciable property	5 to 60 years

Pension Plans: Certain subsidiaries of the Company are members of the Pacific Maritime Association which negotiates and participates in the administration of industry-wide, multi-employer pension plans covering Pacific Coast seagoing and certain shoreside bargaining unit personnel. The subsidiaries accrue pension costs as they are assessed under the contracts.

The Company and its subsidiaries have several insured and trusteed benefit plans covering substantially all other employees. Costs of these plans are accrued based on actuarial estimates, with prior service costs generally amortized over periods ranging from 10 to 30 years. Contributions to these plans are based on recommendations by consulting actuaries.

Income Taxes: Income tax expense is based on revenues and expenses which are included in the statement of income. Deferred income taxes are provided for timing differences in reporting revenue and expense items for tax purposes, except that no provision is made for taxes on tax-deferred earnings from operations deposited in the capital construction fund or on earnings of the fund assets (see Note 3).

Investment credits allowable for tax purposes in the year in which eligible property is placed in service are deferred for financial statement purposes and amortized over the estimated useful lives or lease terms of the property giving rise to the credits.

PACIFIC FAR EAST LINE, INC.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of Pacific Far East Line, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Vessel and Voyage Revenue Realization—The Company reports vessel operations on the completed voyage basis. Revenue, expense and subsidy of voyages unterminated at a year-end are deferred. Depreciation, interest and administrative and general expenses are charged to operations as incurred. Revenues from vessels chartered to others and the related expenses are included in operations as they accrue. Interest expense for 1975 has been reclassified to include $1,151,000 related to certain interest costs on lighters and containers previously included in voyage expenses.

Operating-Differential Subsidy—An operating-differential subsidy is granted to the Company by the U.S. Government in an effort to bring certain of its operating costs into parity with those of foreign competitors. This subsidy is accrued on the basis of rates offered by the Government or, if no rates yet offered, on the basis of management's estimate of rates.

Property and Depreciation—Asset depreciation is computed using the straight-line method. LASH and passenger vessels are depreciated using a statutory life of 25 years. A roll-on/roll-off vessel and a bulk carrier are being depreciated over estimated lives of 25 years and 14 years, respectively. LASH lighters and containers are depreciated over their estimated useful lives of 25 and 8 to 10 years, respectively. Other property and equipment is depreciated over useful lives of 3 to 25 years.

It is the policy of the Company to charge maintenance and repairs to expense; major expenditures for renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related costs and accumulated depreciation are eliminated from the accounts and any resultant gains or losses are included in the results of operations.

Deferred Lease Expense—Under the terms of certain leases, the first several payments are lower than those required during the remaining portion of the lease. The Company amortizes total lease costs over the period of the leases on a straight-line basis thereby establishing a deferred lease liability during the early period of lower payments.

Capitalized Interest—The Company capitalizes, as part of depreciable cost, net interest expense paid on related indebtedness during ship and barge construction in accordance with industry practice and Maritime Administration regulations. Amounts capitalized during 1976 and 1975 were not significant.

Employee Retirement Plans—Under collective bargaining agreements negotiated by the Pacific Maritime Association, of which the Company is a member, the Company makes payments to industry-wide pension plans covering maritime union personnel. The Company charges operations with contributions as they are assessed by the Association. Such assessments meet funding requirements for current service and a portion of unfunded prior service cost.

The Company has a retirement plan for salaried shoreside employees. Annual cost of the plan consists of normal costs plus amortization of the unfunded past service liability. The Company's policy is to fund pension costs accrued.

Income Taxes—Earnings deposited or required to be deposited in the Statutory Fund (Note 3) are not subject to Federal taxes on income unless withdrawn from the fund for general purposes. Such deposits and related transactions have no predictable reversal pattern as to taxable status and, in conformity with industry practice, no deferred taxes are provided on such amounts. Income taxes are accrued when the funds are withdrawn for general purposes. Depreciable cost of certain vessels and equipment for income tax purposes is significantly lower than that reported for financial statement purposes to the extent of the use of statutory funds for their acquisition and payments on related indebtedness. Depreciation expense for tax purposes is therefore less than that computed for the financial statements.

Deferred income taxes are provided to reflect the tax effect of timing differences between financial and tax reporting, principally related to the use of accelerated depreciation for tax purposes and expenses reported in the income statement when incurred which are not deductible for tax purposes until future periods. For several years prior to 1976, deferred income taxes were not recognized due to the net operating loss position.

Investment tax credits realized in years prior to 1971 are being amortized as reductions of taxes on income over the lives of related vessels. In 1971, the Company adopted the policy of reducing each year's income taxes to the extent investment tax credits are realized in such year.

Earnings per Share—Earnings per share are computed using the average number of shares outstanding adjusted for the stock split (Note 8). Stock options were not included in the computation since the effect is not significant.

WATER SUPPLY & OTHER SANITARY SERVICES

BROWNING-FERRIS INDUSTRIES, INC.
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The accounts of Canadian subsidiaries have not been translated into United States currency since the effect of translation would be insignificant. These notes include only amounts applicable to continuing operations, except where indicated otherwise.

Business Combinations

The financial statements include the accounts of businesses combined and stock issued in transactions accounted for on a pooling-of-interests basis for all periods presented. The accounts of purchased companies are included in the financial statements for all periods subsequent to the date of acquisition.

Inventories

Inventories, consisting principally of equipment parts, materials and supplies, valued under a method which approximates the lower of cost (first-in, first-out) or market, which entered into the determination of the cost of sales or operations, at the beginning and end of the two years ended September 30, 1976, were $7,962,000, $7,913,000 and $7,408,000.

Deferred Revenues

The Company's solid waste subsidiaries bill some of their customers for service from one to six months in advance. These revenues are deferred and taken into income in the period in which the related services are rendered.

Income Taxes

The Company uses the deferral method of accounting for the investment tax credit, under which the allowable credit is amortized over the useful lives of the assets acquired. Investment tax credits claimed were $1,825,000 in 1976 and $1,995,000 in 1975. Amortization of the accumulated credits increased net income $1,408,000 in 1976 and $1,180,000 in 1975.

Deferred income taxes are provided for timing differences resulting from inclusion of income and expense items in financial statements in years other than when recognized for income tax purposes. Timing differences result principally from the use of accelerated depreciation methods for income tax returns and the straight-line method in financial statements. The deferred income tax account is charged when the timing differences reverse. In 1976, timing differences resulted in a net decrease in the deferred tax account of $315,000. In 1975, deferred income tax expense was $2,110,000.

The Company and its domestic subsidiaries file consolidated Federal income tax returns.

Depreciation

Depreciation for financial reporting purposes is provided on the straight-line method based upon the estimated useful lives of the assets as follows: buildings, 10 to 40 years; equipment, 3 to 10 years; and furniture and fixtures, 5 to 10 years. Landfills are stated at cost which approximates estimated fair value, and landfill preparation costs are amortized over the useful life of the landfill.

Landfill Sales

The Company follows the policy of expensing, as incurred, both the cost of current landfill operations and the cost of landfill improvements made during the disposal process to increase the ultimate sales price of the completed landfill. Landfill sales activities were insignificant in 1976 and 1975.

Reclassification

Deferred investment tax credits and related accumulated amortization have been reclassified from property and equipment and accumulated depreciation to deferred income taxes. The amortization of the investment tax credit (amounting to $1,180,000 and $1,408,000 for the two years ended September 30, 1976), previously reflected as a reduction of depreciation expense, has been reclassified to income tax expense. These reclassifications did not affect net income.

CONSUMERS WATER COMPANY

Notes to Financial Statements

1) Significant Accounting Policies

Principles of Consolidation:

The accompanying consolidated financial statements include Consumers Water Company and its subsidiaries. Percent of ownership of common stock of the companies included in these consolidated financial statements are as follows:

Ohio Water Service Company	100.0	Maine Water Company	99.2
Shenango Valley Water Company*	100.0	Hudson Water Company	100.0
Kankakee Water Company*	100.0	Wanakah Water Company	100.0
Garden State Water Company	99.5	Crosswicks Water Company	96.5
Camden and Rockland Water Company	92.1	Lopatcong Water Company	100.0
Pennsylvania Water Company	94.6	Ridge Water Company	100.0

*Includes wholly-owned subsidiary.

The accounts of The Dartmouth Company (Note 6), Quality Water Corporation and Arcadia Company, 100% owned subsidiaries, are not included in the consolidated financial statements because they are not in the water utility business. Investments in these unconsolidated subsidiaries are recorded at cost plus the Company's share of undistributed net income since acquisition. The investments in Quality Water Corporation and Arcadia Company are not significant.

All significant intercompany balances and transactions have been eliminated in consolidation.

Uniform System of Accounts:

The water utility subsidiaries maintain their accounts in accordance with the uniform system of accounts prescribed for water utilities by the applicable state regulatory authorities.

Water Utility Plant:

The subsidiaries generally capitalize interest at current rates on short-term notes payable used to finance major construction work in progress. Amounts capitalized are included in other income, net in the Consolidated Statement of Income. Utility plant construction costs also include payroll, related fringe benefits and other overhead costs associated with construction activity. Maintenance and repair costs are charged to expense as incurred while replacements and betterments are capitalized. The cost, including net cost of removal, of property retired is charged to accumulated depreciation. Depreciation is provided principally at straight-line composite rates. The consolidated provision, based on average amounts of depreciable utility property, approximated 1.8% for 1976 and 1.7% for 1975.

Unbilled Revenues:

The subsidiaries accrue revenue for water distributed but not yet billed as of the balance sheet date.

Deferred Charges:

Unamortized debt issuance expense is amortized over the life of the related debt issues. Rate case expense is amortized over periods allowed by the governing regulatory authorities, generally two to three years. Other deferred charges include preliminary survey and investigation costs and certain other items amortized over their anticipated period of recovery.

Customer Advances for Construction:

Water companies receive advances for construction from or on behalf of customers. Under certain circumstances, the amounts received are refundable either wholly or in part over varying periods of time. Amounts no longer refundable are included in contributions in aid of construction.

Income Tax:

The Company and its subsidiaries file a consolidated Federal income tax return. For financial reporting purposes, the subsidiaries provide for Federal income taxes which would be payable on a separate company basis, and the Company records the benefit of its taxable loss in the consolidated return. The rate-making practices followed by certain regulatory agencies allow the utility subsidiaries to recover through customer rates only Federal and state income taxes currently payable and deferred taxes related only to certain timing differences between pretax accounting income and taxable income. The income tax effects of other timing differences are flowed through for rate-making and accounting purposes. The Company expects that deferred taxes not recorded will be collected through customer rates in the future when such taxes become payable.

Investment Tax Credit:

Investment tax credit deducted currently for Federal income tax purposes is deferred for accounting purposes and amortized over the estimated useful lives of the related properties.

Earnings per Share:

Primary earnings per common share are based on the annual weighted average number of shares outstanding and common share equivalents adjusted for share dividends. The effect of warrants and employee stock options which are included as common share equivalents is not significant.

Fully diluted earnings per share are computed based upon the weighted number of shares outstanding plus additional shares of 76,708 in 1976 and 77,528 in 1975, primarily attributable to shares potentially issuable upon conversion of the convertible debentures of Ohio Water Service Company. The income attributable to common shares has been increased by $48,354 in 1976 and $49,584 in 1975 to assume conversion of the convertible debentures.

PHILADELPHIA SUBURBAN CORPORATION
Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies

The major accounting policies followed by Philadelphia Suburban Corporation and its subsidiaries are presented below in order to assist the reader in evaluating the consolidated financial statements and accompanying notes. Where necessary, such policies are discussed separately for the water service company and the commercial and industrial service companies.

Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries all of which are wholly owned. All material intercompany accounts and transactions have been eliminated.

Income on Construction Contracts

Income on long term contracts is generally reported on the basis of the company's estimate of the percentage of completion of individual contracts, commencing when progress reaches a point where experience is sufficient to estimate final results with reasonable accuracy. That portion of the total contract price is accrued which is allocable, on the basis of the company's estimate of the percentage of completion, to contract expenditures incurred and work performed. As these long term contracts extend over one or more years, revisions in cost and profit estimates during the course of the work are reflected in the accounting period in which the facts which require the revision become known. Income on short term contracts is recorded on the substantial completion of each contract. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss on both short term and long term contracts is accrued.

Depreciation, Amortization, Maintenance and Repairs

Water Service—In accordance with the rate-making policy followed by the Pennsylvania Public Utility Commission, the 4% compound interest method is used to compute depreciation on water service plant. The straight line method is used with respect to transportation and mechanical equipment and non-water service property.

Expenditures for maintenance and repairs, including minor renewals and betterments, are charged to operating expenses in accordance with the Uniform System of Accounts prescribed by the Pennsylvania Public Utility Commission. Costs of new units of property and betterments are capitalized. When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with cost of removal less salvage, is charged to accumulated depreciation.

In accordance with practice in the utility industry, the company capitalizes interest incurred during construction, which is not material in amount.

Organization expense, franchises and water rights are carried at original cost and are not amortized.

Deferred debt expense is amortized by the straight line method over the life of the related debt issues.

Commercial and Industrial Service—Depreciation on commercial and industrial service properties is generally computed by the straight line method.

Expenditures for maintenance and repairs are charged to costs and expenses. Costs of significant improvements are capitalized.

Deferred debt expense is amortized by the straight line method over the life of the related debt issues.

In compliance with the Accounting Principles Board Opinion on Intangibles, goodwill recorded subsequent to October 31, 1970 is being amortized by the straight line method over forty years. Goodwill recorded prior to October 31, 1970 is not being amortized because management foresees no diminishment in value.

Income Taxes

Water Service—In accordance with the rate-making policy of the Pennsylvania Public Utility Commission, deferred taxes are not provided for timing differences, principally with respect to unbilled revenues, certain depreciation methods, and interest and overhead costs that are capitalized for financial reporting purposes.

Amounts equivalent to investment tax credits claimed for tax purposes are deferred in the accounts and are being amortized to income generally over the life of the related property.

Commercial and Industrial Service—The company's construction subsidiaries maintain their books and report for income tax purposes principally on the completed contract basis of accounting for long term construction contracts. For financial statement purposes, these companies report such income principally on the percentage of completion method. Deferred taxes are provided for this difference and all other material timing differences, principally depreciation.

Investment tax credits are taken directly into income as a reduction of the provision for current income taxes.

Inventories, Materials and Supplies

Inventories are carried at cost on an average or first-in, first-out basis, not in excess of market.

Pensions

The company and certain of its subsidiaries have pension plans in effect for all employees not covered by plans administered by collective bargaining organizations. The companies' policy is to fund pension costs accrued, which includes current costs and, as to certain of the plans, amortization of prior service costs over twenty to forty year periods.

Contributions to plans administered by collective bargaining organizations are usually based on hours worked upon which the companies make contributions as specified in the various contracts.

III

INDIVIDUAL ACCOUNTING POLICIES CLASSIFIED BY TOPIC

The requirement under Opinion No. 22 to disclose accounting policies that involve a selection among existing acceptable alternatives, principles and methods peculiar to the industry in which the reporting entity operates, and unusual or innovative applications of generally accepted accounting principles has caused the companies included in NAARS to disclose accounting policies that cover a wide variety of topics. Two hundred seventy-one examples of individual accounting policies pertaining to various topics are presented in this chapter, classified by topic.

ACCOUNTING CHANGES

ADDRESSOGRAPH-MULTIGRAPH CORPORATION

Inventory Pricing—Inventories are stated at the lower of cost or market. Beginning in 1977, cost is determined using the last-in, first-out method for the major portion of U.S. inventories and the first-in, first-out (FIFO) method for most other inventories. Prior to 1977 the cost of substantially all inventories was determined using the FIFO method.

ASPRO INC.

Translation of Foreign Currency Financial Statements

In the prior year, the Corporation changed its method of translating foreign currency financial statements effective July 31, 1976. Previously, current assets and liabilities were translated at current rates, noncurrent assets and liabilities were translated at historical rates, and net gains were deferred. Under the revised method (which is in accordance with the provisions of Statement No. 8 of the Financial Accounting Standards Board), inventories and property, plant and equipment are translated at historical rates, and all other assets and liabilities are translated at current rates. Revenues and expenses are translated at average rates of exchange prevailing during the year, except for expenses relating to assets translated at historical rates. Net translation gains and losses are included in operations in the period in which they occur.

Since the effect of the change to the revised method was considered immaterial in relation to consolidated net income and retained earnings, consolidated financial statements prior to the date of the change were not retroactively restated to give effect to the change.

CUNNINGHAM DRUG STORES, INCORPORATED

Goodwill

Effective with the year ended September 30, 1976, the Company began amortizing goodwill over a twenty year period. The effect of this change in 1976 was immaterial.

DART DRUG CORPORATION

Employee Vacations: The cost of employee vacations is expensed when earned by the employee. For years ended prior to March 31, 1976, such costs were expensed when paid. The effect of this change from the cash basis to the accrual basis, to more closely match costs and revenues, was to decrease income before extraordinary item for the year ended March 31, 1976, by $36,000 ($.02 per share).

EARTH SCIENCES, INC.

(a) Basis of Financial Statement Presentation

The Company is principally engaged in natural resources development stage activities, including mineral property acquisition, exploration and development, and mineral resource research and development.

Accordingly, the accompanying financial statements are presented in the format prescribed for development stage companies by Statement of Financial Accounting Standards No. 7 issued by the Financial Accounting Standards Board. Financial statements issued in prior years were presented in accordance with the applicable Securities and Exchange Commission regulations then in effect. The format of those statements was significantly different from the statements presented herein and therefore comparative amounts have not been presented for 1975.

In connection with the change in statement presentation, certain transactions previously reported in number of shares are now stated in dollar amounts. In accordance with Statement No. 7 cumulative amounts are reported in the statements of operations, stockholders' equity, and changes in financial position from January 1, 1972, the inception of the present development stage activities of the Company, to December 31, 1976. Prior to January 1, 1972, the development stage activities of the Company were relatively minor or related to properties no longer held by the Company.

GATEWAY TRANSPORTATION CO., INC.

Accounting for Freight Revenue:

Prior to 1975, the company reported freight revenues for both financial reporting and income tax purposes as income in the period in which delivery was consummated. As of January 1, 1975, the company adopted the percentage of completion method of reporting freight revenue for financial reporting purposes. The recognition of freight revenue under this method of accounting results in a better matching of revenue and expenses in the same reporting period.

GENESCO INC.

Accounting changes: In July 1976 the company adopted Financial Accounting Standards Board Standard No. 8 regarding accounting for the translation of foreign currencies. Under this method, current assets (excluding inventories) and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Inventories and noncurrent assets are translated at historical exchange rates. Income, costs and expenses are translated at average rates during the year except that historical rates are used to translate depreciation and cost of sales. Gains and losses arising from the retroactive application of this statement, which are immaterial, have been credited or charged to earnings in the periods incurred. See "Quarterly Data" on page 15 of the Financial Review.

Much publicity has recently been given Employee Stock Ownership Plans (ESOP). The company has concluded that its Employee Incentive Stock Plans embrace most of the ESOP principles. Therefore, consistent with currently emerging trends, the accounting for these plans was changed in July 1976. The effect of this change was to retroactively eliminate the employee incentive stock purchase accounts as an asset and treat them as a reduction of stockholders' equity. The company treats any short-term bank loans which the trustee of the stock plans might have as a current liability even though not guaranteed. There were no such loans at 31 July 1976. Current liabilities at 31 July 1975 include short-term bank loans to the trustee of $12,900,000. Trustee obligations to GFC are treated as a reduction in the company's investment in GFC.

None of the above reclassifications or accounting changes affected earnings in either year except for the immaterial effect of the change in accounting for the translation of foreign currencies.

HANDY DAN HOME IMPROVEMENT CENTERS, INC.

Deferred Charges and Preopening Costs

During the year ended August 31, 1975, the Company changed its accounting policy of deferring and amortizing inventory stocking costs and store preopening costs to a policy of expensing such costs as incurred. Management believes that the revised policies are preferable and in greater conformity with prevailing industry practices.

HASBRO INDUSTRIES, INC.

(c) Depreciation and Amortization

Depreciation and amortization of property, plant and equipment is provided over the estimated useful lives of the respective assets using accelerated and straight-line methods.

Tools, dies and molds are amortized over a three year period or their useful life, whichever is less. Through 1975 amortization was computed on an accelerated method which generally provided for amortization of 50% in the year of acquisition and 25% for the two following years. Commencing with 1976 acquisitions of tools, dies and molds, the double declining balance method is utilized. The adoption of this method of amortization did not have a material effect on net earnings.

Cost in excess of acquired net tangible assets includes program scripts and goodwill which are amortized over periods of ten and forty years respectively. In addition, goodwill and other intangibles acquired prior to 1970 have been reevaluated by management and are now amortized over a thirty-three year period. Patent costs are amortized over a five year period.

NEISNER BROTHERS, INC.

(d) Store Closings and Store Expenses:

In 1975, due to the significant increase in store closings (see Note 3), the Company's Board of Directors determined that it was preferable for the Company to change its method of accounting so as to provide for the aggregate estimated continuing lease and related costs at the time a decision is made to close a store rather than to continue its previous method of expensing such costs when paid. The new method was applied retroactively for stores closed prior to January 25, 1975; the charge ($4,228,800, net of deferred income taxes of $224,200), relating to such stores is included in operations for the year ended January 31, 1976, as a cumulative effect change in accounting. The effect of the change for the year ended January 31, 1976, (which results primarily from the store closing program—see Note 3), of adopting this new accounting principle was to increase the loss before cumulative effect by $3,040,633 ($4.39 per share).

Expenses associated with the opening of new stores, including advertising and other marketing and promotional programs, are written off in the year the store opens.

PALL CORPORATION

Translation of Foreign Currencies:

In 1977 the Company changed its method of accounting for foreign currency translation in conformity with the requirements of Statement No. 8 of the Financial Accounting Standards Board. Generally, all assets and liabilities are translated at rates of exchange prevailing at the close of the year, except for inventories, property, plant, equipment, and certain deferred items which are translated at historical rates of exchange. Revenues and expenses, except depreciation and cost of sales, are translated at the average of exchange rates in effect during the year. Gains and losses resulting from translation or exchange transactions are reflected in earnings as incurred. The 1976 results have been restated to reflect this accounting change. (See Note 2—Foreign Operations).

PIMA SAVINGS AND LOAN ASSOCIATION

Deferred Income: A portion of loan fee income is recognized as earned income when the loan is originated with the remaining portion being deferred and amortized over an estimated average loan life. Discounts on loans purchased are deferred and amortized over an estimated average loan life.

In 1975 the Association changed its method of amortizing deferred loan fees and discounts from the straight-line method to the sum-of-the-digits method. The change was made to more closely approximate a level yield on loans. Had this change not been made, income before cumulative effect of a change in accounting principle would have been $2,498 more for the year ended December 31, 1975. For years prior to 1975, the cumulative effect of this change is net of a reduction for income taxes of $42,440.

TAFT BROADCASTING COMPANY

Film Contract Rights

Film contract rights acquired for television are stated at cost, less amortization. These costs are charged to operations on the straight-line basis as follows: for film rights acquired prior to April 1, 1976, over the contract period; for film rights acquired after March 31, 1976, over the contract period or estimated number of available showings whichever results in the greater aggregate amortization. This change in policy, which does not have a material effect on net earnings, was made to conform the amortization policy to the recommendation of the Accounting Standards Division of the American Institute of Certified Public Accountants. The costs of film contracts estimated to be charged to operations during the next fiscal year have been classified as current assets.

TELEPROMPTER CORPORATION

In 1976, Teleprompter adopted the Financial Accounting Standards Board's new rules for lease accounting. Accordingly, certain equipment lease obligations of the Los Angeles and Manhattan systems have been capitalized and prior years' operating results have been restated. See Note 2 for further information.

THE UNIMAX GROUP INC.

(f) Deferred Charges

As of December 31, 1974, Unimax changed its method of accounting for research and development costs from deferring such costs when incurred and amortizing such costs over the useful life of the project—principally five years—to treating such costs as period expenses when incurred. All prior year financial statements were restated to reflect this change.

WAGNER ELECTRIC CORPORATION

Property, plant and equipment are recorded at cost. Effective with 1976 additions, the Company commenced using the double declining balance depreciation method. Assets acquired prior to 1976 continue to be depreciated on the straight-line basis. The change in depreciation method for 1976 additions did not significantly affect net income for 1976.

WHITING CORPORATION

Investment—In fiscal 1977, the company adopted the equity method of accounting for its investment in Societè Francaise Whiting Fermont, a French affiliate, previously carried at cost, in recognition of obtaining control on April 29, 1977, as explained in note F. The cumulative effect of this accounting change amounted to $97,750, which reflected the company's earlier 45% equity interest in the French affiliate's net assets and net earnings. Retroactive treatment was not considered necessary because of the insignificant amounts involved.

JOHN WILEY & SONS, INC.

Changes in Accounting Principles:

The Company has adopted the policy of providing for estimated returns on sales made during the year. The Company had formerly followed the policy of recording sales returns as received. This change was adopted retroactively in accordance with the provisions of Statements No. 5 and 11 of the Financial Accounting Standards Board, and accordingly the accompanying 1976 financial statements have been restated to reflect this change. The effect of this change was a reduction in net income of $80,000 or $.05 per share in 1977, and $129,000 or $.08 per share in 1976. The cumulative effect of this change on net income for years prior to 1976 ($1,404,000) has been charged to retained earnings at May 1, 1975.

The Company also adopted the policy of retroactively capitalizing financing leases by recording the related asset and lease obligation on the accompanying balance sheets in accordance with the provisions of Statement No. 13 of the Financial Accounting Standards Board. The asset value of the capitalized lease is being amortized over the life of the lease using the straight-line method. The effect of the change upon net income for the years ended April 30, 1977 and 1976 is not material. The cumulative effect of this change on net income for years prior to 1976 ($111,000) has been charged to retained earnings at May 1, 1975.

Effective May 1, 1975, the Company made a change in accounting for composition costs. Commencing at that date composition costs for all books are being capitalized and depreciated over an estimated useful life of five years using essentially the double-declining balance method. Previously, composition costs were included in inventory and amortized over the life of the first printing of a title. This change was adopted to more accurately match revenues and expenses. In accordance with Accounting Principles Board Statement No. 20, the cumulative effect of this change on prior years is reflected in the 1976 consolidated statement of income as an addition to income of $719,000 (net of related income taxes of $779,000).

ACCOUNTING PERIOD

CAMPBELL SOUP COMPANY

Consolidation—The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries. Foreign subsidiaries (except in Canada and Mexico) have fiscal years ending June 30, and their accounts are adjusted for intercompany transactions to the Company's year-end. Significant intercompany transactions are eliminated in consolidation.

FOREST CITY ENTERPRISES, INC.

Fiscal year—Effective February 1, 1973, the Company changed its annual accounting period to a fiscal year ending January 31, which more closely coincides with the lowest point in their annual cycle of operations. Operating results for the month of January, 1973, are included solely in retained earnings.

MIDLAND RESOURCES, INC.

Change of Fiscal Year

During the nine months ended November 30, 1975 ("fiscal 1975") the Company changed its fiscal year from February 28 to November 30.

SUPER FOOD SERVICES INC.

Fiscal Year—The Company maintains its accounts on a fifty-two/fifty-three week year ending on the last Saturday in August.

WERNER CONTINENTAL INC.

Accounting period—The Company's fiscal year is based on thirteen 4-week periods ending on the last Saturday of each calendar year. Fiscal years 1976 and 1975 ended on December 25, 1976 and December 27, 1975.

ADVERTISING SERVICES

AMERICAN MOTORS CORPORATION

Warranty and Advertising

Estimated costs related to all product warranties are provided for at time of sale. Advertising and sales promotion expenditures, in general, are charged to operations as incurred.

HASBRO INDUSTRIES, INC.

(f) Advertising Costs

The costs of advertising and other marketing programs are charged to operations in the year incurred except for production costs of commercials which are charged to operations in the year first aired.

AMERICAN SECURITY CORPORATION

Pension Plan and Thrift and Savings Plan

The Corporation has a pension plan and a thrift and savings plan for the benefit of its eligible employees. It is the policy to fund the costs of such plans as they accrue.

The pension plan is a non-contributory plan funded by the Corporation whereas the thrift and savings plan is a voluntary savings program in which eligible employees may invest up to 10 percent of their base salaries and the Corporation makes contributions equal to 50% of the amounts so invested.

COBE LABORATORIES, INC.

Vacations:

Vacations for all employees are accrued as earned.

EASTMAN KODAK COMPANY

Vacations. The company's liability for vacations earned in the current year and to be taken in the following year is accrued.

GENERAL ELECTRIC COMPANY

Vacation Expense

Most employees earn credits during the current year for vacations to be taken in the following year. The expense for this liability is accrued during the year vacations are earned rather than in the year vacations are taken.

MARRIOTT CORPORATION

Deferred Management Stock Compensation:

Compensation for deferred stock bonus awards is recorded in the year in which the bonus is earned, adjusted for anticipated forfeitures, and is based on quoted market price at the date awarded.

MARSHALL FOODS, INC.

Vacation Pay—

In fiscal 1976, the Company formalized its vacation policy to provide for vesting of vacation rights earned. At March 27, 1976 the Company provided for $93,000 of accrued vacation pay.

STEPAN CHEMICAL COMPANY

Management Incentive and Profit Sharing Plans:

The Company has a Management Incentive Plan for key employees which provides for awards determined by a committee of four outside directors of the Company. Charges to expense for this plan in 1976 and 1975 were approximately $368,000 and $280,000, respectively. At the discretion of the participants, awards are payable in cash or deferred and used to acquire common stock of the Company.

The Company has a non-contributory profit sharing plan which covers substantially all salaried employees. Under the plan, the Company is required to provide amounts based upon the compensation of the participants and the net income of the Company, as defined. Amounts so provided under the plan were $436,000 in 1976 and $303,000 in 1975.

TEXAS INTERNATIONAL AIRLINES, INC.

(f) Vacations—The Company expenses and accrues as a liability in the current year the cost of vacations that will be taken in the following year.

ALEXANDER'S, INC.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Alexander's, Inc. and its subsidiaries. The investments in the 50%-owned joint venture (Note 2) and certain other operations are carried at cost plus equity in undistributed earnings, and are included in the classification "Other Assets." These other operations are not material.

ALEXANDER & ALEXANDER SERVICES INC.

Adjustments to Net Income of Pooled Businesses. Certain pooled businesses operated at times as a proprietorship, partnership, or under the provisions of Subchapter S of the Internal Revenue Code, whereby their earnings were treated as if distributed and taxed directly to the proprietor, partners, or stockholders, respectively, and no provision had been made for Federal income taxes applicable to such earnings.

Adjustments have been made to present the results of operations for pooled businesses had such businesses been owned by the Company for periods prior to acquisition. Such adjustments give effect to: 1) compensation levels at appropriate assumed rates or at rates agreed upon between continuing stockholder-employees and the Company at the respective dates of acquisition; 2) increased or decreased costs which would have been incurred had the acquired businesses had plans similar to the Company's employee benefit plans; and 3) the related income tax effect of these adjustments and income taxes applicable to businesses referred to in the preceding paragraph.

EARTH RESOURCES COMPANY

Principles of Consolidation:

The consolidated financial statements include the company's investment in the accounts of all subsidiaries and the company's pro rata share of the accounts of a mining joint venture. All intercompany balances and significant intercompany transactions have been eliminated. The cost of investments in subsidiaries has been assigned to the acquired assets based on the fair value of such assets.

GILFORD INSTRUMENT LABORATORIES INC.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation.

HOOVER BALL AND BEARING COMPANY

Principles of Consolidation: The consolidated financial statements include the accounts and operations of the Company, all wholly owned subsidiaries and a 69%-owned overseas subsidiary. The overseas subsidiaries are consolidated based on their respective years ending in May. All significant intercompany accounts and transactions have been eliminated.

The investments in and operations of consolidated foreign subsidiaries and the effect of foreign exchange adjustments included in operations have not been significant to the consolidated financial statements. Federal income taxes have not been provided on the undistributed earnings of these subsidiaries since the earnings are expected to be reinvested in the operations of the respective companies.

PEAVEY CORPORATION

Principles of Consolidation

The accounts of all subsidiaries are fully consolidated with minority interests appropriately reflected in the financial statements. Equity in earnings of a 33⅓% owned company is reflected in the earnings of the Company with appropriate adjustments to the investment account.

CONTRACTS

CONDEC CORPORATION

Long-term contract inventories are stated at accumulated costs less the estimated average cost of items delivered (computed from accumulated costs plus estimates of cost of completion) and less, if applicable, allowances for estimated losses to be sustained on completion. Estimated costs of completion may include estimates as to price changes and increased costs because of change orders and anticipated escalation. Adjustments resulting from changes in contract cost estimates are amortized over the remainder of the contract. Progress payments are advances of part of the purchase price and are offset against inventory until the items are completed and shipped.

THE PERKIN-ELMER CORPORATION

Contracts with the U.S. Government

A majority, by dollar value, of the Corporation's U.S. government contracts are cost-type with final fees significantly affected by both cost and performance incentives. It is the Corporation's practice to accrue profits on these contracts as costs are incurred, based on best current estimates of total fees to be ultimately earned. On a cumulative basis to July 31, 1977, the Corporation has recognized income approximating $8.5 million (after-tax effect) of expected incentive fees for which the demonstration of performance occurs in the future, and which are at a level consistent with performance on related contracts in the past.

ROHR INDUSTRIES, INC.

Sales and Earnings

Aerospace and marine contracts are generally negotiated between the Company and its major customers, while contracts for transportation and industrial products are awarded on a competitive basis. During 1976, the major portion of the Company's sales were under firm fixed price contracts with the remainder represented by cost reimbursement and fixed price incentive type contracts.

Sales of products are recognized as deliveries are made or, in the case of construction effort and cost reimbursement type contracts, in accordance with the percentage-of-completion method of accounting. The estimated profit on each contract is taken into earnings in proportion to recorded sales. Any anticipated losses on contracts or programs are charged to earnings when determined.

Included in sales are amounts arising from contract terms that provide for invoicing a portion of the contract price at a date after delivery, unnegotiated price adjustments for contract changes, costs and estimated earnings in excess of billing provisions resulting from percentage-of-completion accounting, retainage and escalation.

DEBT AND LIABILITIES

THE AAV COMPANIES

The Company has entered into agreements with the State of Ohio and the City of Solon, Ohio to lease plant facilities located in Cincinnati and Solon, Ohio financed with the proceeds from issues of Industrial Revenue Bonds. The leases expire in 1993 and 1997, respectively, with the Company having an option in the first lease and an obligation in the second to purchase the properties for a nominal amount at expiration. The leases have been recorded as purchases of properties which are being depreciated over their respective estimated useful lives.

BENEFICIAL STANDARD MORTGAGE INVESTORS

Debt Issuance Expense:

Debt discount and issuance expense is amortized on the financing method over the life of the debt issue. Upon conversion of debenture, the applicable unamortized debt discount and expense is charged to additional paid-in capital.

COUSINS MORTGAGE AND EQUITY INVESTMENTS

Warrants—

Proceeds allocable to the warrants ($4.68 per warrant) issued in conjunction with the sale of the

6.5% subordinated debentures have been reflected as debt discount with a corresponding credit to paid-in surplus. Debt discount and other deferred expenses related to the sale of the debentures are being amortized ratably over the term of the debentures.

Accounting for Exchange of Assets in Satisfaction of Senior Indebtedness—

On February 13, 1976, the Securities and Exchange Commission issued a Staff Accounting Bulletin requiring real estate investment trusts to write down to fair market value any assets swapped to swapping institutions for indebtedness. An "extraordinary credit" is then recognized to the extent the consideration received from the swapping institutions (i.e. notes and cash) exceeds the written down value of the assets. Accordingly, an extraordinary credit (net of tax effect) of $7,290,000 was recognized during the year ended August 31, 1976.

EARTH RESOURCES COMPANY

Interest Expense:

Interest and fees incurred on funds borrowed for significant construction and development projects are capitalized during the period prior to placing the new assets in economic service and are subsequently amortized to income over the life of the project.

HAWAIIAN AIRLINES, INC.

Accrued Vacation Liability

Accrued vacations in excess of the amount expected to be taken by employees during the following year are classified as a non-current liability.

JACOBSON STORES INC.

Capitalized Interest:

The Company capitalizes interest on debt incurred on building projects under construction and land held for future development in keeping with common industry practice.

JEWEL COMPANIES INC.

Other Deferred Liabilities

Costs associated with the Company's contingent compensation plans and for losses incurred under the Company's self-insurance program are charged against current earnings. The portion of such costs estimated to be payable in the ensuing year is included in Current Liabilities with the balance included in Other Deferred Liabilities.

TOSCO CORPORATION

10. Imputed Interest: Where appropriate, the difference between the present value and the face amount of long-term liabilities is recorded as discount (imputed interest) and is amortized by a charge to operations.

WESTERN ELECTRIC COMPANY INC.

Other—It is the Company's practice to charge to costs and expenses currently amounts which will be required for (1) Force Adjustments necessary for payments to employees laid off or downgraded to lower paying jobs, (2) Plant Reconversion to provide for moving into temporary locations to meet unusual needs of the Bell System and later withdrawing from these locations, (3) Plant Reconversion costs associated with Government defense work and (4) certain Other Accruals to provide for such items as product guarantee and vacations.

DEFERRED CHARGES

AIR CALIFORNIA

Certain training and route development expenses are being amortized over periods of five to seven years. Costs related to pending route applications will be amortized commencing when routes are granted and flights are begun, or written off if not granted.

DART DRUG CORPORATION

Deferred Charges: The Company amortizes its lease acquisition costs over the period of the lease agreements.

FOOTE MINERAL COMPANY

Deferred Charges. The costs of extended vacation benefits at certain plants have been deferred and are being amortized over the expected periods of benefit.

Mine development costs incurred either to expand the capacity of operating mines or to develop new ore bodies are deferred and charged to operations on the unit-of-production method based on the estimated ore reserves to be recovered.

HANDY DAN HOME IMPROVEMENT CENTERS, INC.

Deferred Charges and Preopening Costs

During the year ended August 31, 1975, the Company changed its accounting policy of deferring and amortizing inventory stocking costs and store preopening costs to a policy of expensing such costs as incurred. Management believes that the revised policies are preferable and in greater conformity with prevailing industry practices.

KAUFMAN AND BROAD, INC.

Life Insurance Operations. The accounts of the Company's life insurance subsidiary, Sun Life, are prepared in accordance with generally accepted accounting principles which differ in some respects from those followed in reports to regulatory authorities.

Premium revenue is recognized when earned and due. Reserves for future policy benefits are computed using the net level premium method.

Insurance acquisition costs, consisting of commissions, medical examinations, inspection report fees, certain underwriting and issue costs and other costs, which vary with and are primarily related to the production of new business, have been deferred and are being amortized principally over the premium paying period.

TOSCO CORPORATION

6. Deferred Refinery Turnaround Charges:

Turnarounds (shutdown for repair and maintenance) or major refinery processing units normally occur after approximately 12 to 24 months of continuous operation. These charges are deferred and amortized on a straight-line basis over the related operating period.

DEFERRED CREDITS

HELENE CURTIS INDUSTRIES, INC.

Deferred Royalty Income—This amount represents certain liabilities of the Company's former subsidiary in France which were assumed by a new licensee in fiscal 1972 to be offset against future royalties accruing to the Company. Revenues are recorded as royalties are earned by the Company.

UNION PLANTERS CORPORATION

Unearned discount arising principally from discount basis consumer loans is recorded as a deferred credit (deducted from loans in the consolidated balance sheets) and is recognized as income using principally the sum-of-the-months-digits method.

DISCONTINUED OPERATIONS

ASPRO INC.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and all its foreign and domestic subsidiaries. Upon consolidation, all significant intercompany accounts, transactions, and profits are eliminated.

On November 1, 1976, the Corporation sold substantially all of the net assets and business of Jackson Rope Corporation, a wholly-owned subsidiary, for cash approximately equal to book value. The financial statements have not been restated to give effect to this discontinued business segment as the effect is considered immaterial in relation to consolidated sales and net income.

CITIZENS FINANCIAL CORPORATION

The Company's mortgage banking subsidiary, which was previously consolidated, is presented as a discontinued operation as explained in Note 14. The financial statements for the year ended December 31, 1975 have been restated for this change. There was no effect on net loss or retained earnings due to this change.

REPUBLIC CORPORATION

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

During 1977 and 1976, the Company discontinued operations of certain businesses. Accordingly, the statements of income for all periods presented have been restated to present separately the activities of all discontinued operations. Reference is made to Note 7 for additional information regarding the disposition of certain businesses.

EARNINGS PER SHARE

ADDRESSOGRAPH-MULTIGRAPH CORPORATION

Per Share Amounts—The weighted average number of shares outstanding is used in determining per share amounts. No material dilution in per share amounts would result from the conversion of the Company's convertible debentures and the exercise of stock options.

ASPRO INC.

Net Income per Share

Net income per share is computed by dividing net income by the weighted average number of shares of Common Stock and Common Stock equivalents outstanding during each year. Common Stock equivalents include all warrants and stock options which would have had a dilutive effect, applying the treasury stock method.

CONDEC CORPORATION

Earnings per share of common stock and common stock equivalents are based on the average number of shares of common stock outstanding during the year plus the common shares issuable upon conversion of the 10¢ convertible preferred stock and upon the exercise of outstanding stock options and warrants. In 1976 and until the fourth quarter of 1977, exercise of outstanding warrants was not assumed because the exercise price was in excess of the common stock market price. Proceeds from exercise have been assumed to be used first to purchase treasury shares (to the extent of 20% of outstanding shares), and, second to reduce outstanding debt, with elimination of related interest expense. Fully diluted earnings per share assume, in addition, conversion of all convertible debentures into common stock, with elimination of the interest expense (after taxes based on income). These adjustments are made only to the extent they reduce earnings per share.

DONALDSON COMPANY INC.

Earnings per Share: Earnings per share of Common Stock are computed by dividing net income by the weighted average number of shares outstanding during the year. Potential dilution on the exercise of dilutive stock options is not material.

PALL CORPORATION

Earnings per Share:

Primary earnings per share was computed based on the average number of shares outstanding. Stock options were excluded from the computation since they were not materially dilutive during either 1977 or 1976.

Fully diluted earnings per share in 1976 was computed assuming the exercise of outstanding stock options during the period less those shares the Company could have purchased with proceeds of these options, and assuming the conversion of the 6¼% Convertible Subordinated Debentures and the 5⅛% Convertible Note, and the elimination of the related interest expense, net of tax. The 6¼% Convertible Subordinated Debentures and the 5⅛% Convertible Note were all converted into Common Stock in 1976. As a result of the above conversion, and options not being materially dilutive, fully diluted earnings per share is the same as primary for 1977. Primary earnings per share for 1976 would have been $2.25 had the Debentures been converted at the beginning of the period.

PEAVEY COMPANY

Earnings per Share

Net earnings per share have been determined by dividing net earnings, after deduction of preferred stock dividends, by the weighted average number of shares of common stock outstanding during the year without inclusion of shares contingently issuable under terms of stock warrant and option agreements since the effect of their inclusion is not material.

THE PERKIN-ELMER CORPORATION

Earnings per Share

Net income per share is computed using the weighted average number of common shares and common stock equivalents outstanding, including dilutive stock options, warrants and the convertible loan stock of Perkin-Elmer Limited. Interest on the convertible loan stock, net of tax effect, is added back to net income in calculating primary earnings per share.

SPACELABS INC.

(d) Earnings per Share:

Earnings per share are based on the average number of capital and capital equivalent shares outstanding during the year.

EMPLOYEES STOCK OWNERSHIP PLAN (ESOP)

AMERICAN FINANCIAL CORPORATION

Employee Stock Ownership Retirement Plan (ESOP). As of December 1, 1975, AFC began an ESOP covering all employees who are qualified as to age and length of service. The ESOP is a noncontributory, trusteed plan which will invest in securities of AFC for the benefit of the employees of AFC and its subsidiaries. Contributions are discretionary by the directors of AFC and its subsidiaries and are charged against earnings in the year for which they are declared. Qualified employees having vested rights in the plan are entitled to benefit payments at age 60.

CENTURY TELEPHONE ENTERPRISES INC.

Employee Stock Ownership and Pension Plans—

Under an Employee Stock Ownership Plan ("ESOP"), established in October, 1975 to replace pension plans covering a majority of employees, the Company contributes to the ESOP an amount determined by the Board of Directors. The ESOP is administered by a committee of three individuals appointed by the Board of Directors and plan assets are held and managed by an Employee Stock Ownership Trust under the direction of the committee. During 1976 and 1975 the Company recorded expenses related to the ESOP in the amounts of $276,000 and $53,000, respectively.

The Company has several pension plans for employees not covered by the ESOP. Costs applicable to these pension plans were $67,000 in 1976 and $166,000 in 1975. As of the latest determination date, total assets of the pension funds and the balance sheet accruals exceeded the actuarially computed value of vested benefits. As a result of replacing the majority of the pension plans with the ESOP, there was no liability as of December 31, 1976 for any significant amounts of unfunded past service costs.

RUDDICK CORPORATION

G. Employee Stock Ownership Plan:

The Company has an Employee Stock Ownership Plan (ESOP) for the benefit of eligible employees which became effective September 29, 1975. The ESOP contribution is equal to 1½% of the annual compensation of eligible employees, plus an additional percentage, not to exceed 3½%, of the annual compensation of eligible employees based on the Company's net income in excess of 9% of average stockholders' equity during the year. In 1976, the total contribution percentage was 2.7 and ESOP expense was $832,000. The plan provides for the purchase of Company shares of any class on the open market.

SOUTHERN AIRWAYS INC.

Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan (ESOP) for certain of its employees. The Plan was established effective November 1, 1975. The Company's contributions to the plan are determined annually at rates related to the base compensation of active participants. It is the Company's policy to fund contributions accrued.

ENTITLEMENTS

THE CHARTER COMPANY

C. Petroleum and Related Operations

Certain of the petroleum operations are subject to the provisions of the Emergency Petroleum Allocation Act of 1973 and regulations promulgated thereunder as administered by the Federal Energy Administration ("FEA"). The FEA has adopted an "entitlements program" designed substantially to equalize costs of crude oil for all U.S. domestic refiners. The Company records the expense or benefit of such entitlements in the month in which the payment or receipt occurs.

MARION CORPORATION

Entitlements—Under the federal mandatory petroleum allocation regulations, the Company qualifies monthly to buy or sell "entitlements." The approximate net amount received was $8,973,000 for the year ended January 31, 1977 ($13,582,000 in 1976) based upon its crude oil refined as defined under the regulations. Entitlements, which are sold to or purchased from other companies designated by the FEA, are recorded in the cost of crude oil purchases either in the month of qualification or in the month earned with respect to a major customer contract that requires the Company to reduce its sales prices to them based upon future entitlements awarded.

TOSCO CORPORATION

12. Entitlements: Effective November 1, 1974, the Federal Energy Administration (FEA) adopted a crude oil cost equalization program principally for the purpose of equalizing crude oil cost to refiners throughout the United States. The regulations provide for the issuance of "entitlements" to be purchased or sold by a refiner based on a formula which takes into consideration domestic and foreign crude oil purchases and crude oil refinery runs.

Under the formula, Tosco is a purchaser of entitlements. Tosco follows the policy of accruing the estimated cost of entitlements in the month in which the crude oil is purchased. The cost of entitlements is charged to operations during the month this crude oil is processed.

EXTRAORDINARY CHARGES OR CREDITS

DIGICON INC.

Income Taxes—No provision is made for income taxes on undistributed earnings of foreign consolidated subsidiaries.

No recognition is given in the accompanying consolidated balance sheet to the future income tax benefits of loss carryforwards. When realized, such benefits are recognized in the Company's statement of consolidated income by a charge in lieu of income taxes, representing the additional income taxes which otherwise would have been provided, with an equal and offsetting extraordinary credit reflecting the utilization of the loss carryforward. United States investment tax credits, which would otherwise reduce the Company's U.S. taxes, are applied as a reduction of this charge and offsetting credit.

DIVERSIFIED MORTGAGE INVESTORS

(h) Exchange of Assets for Reduction of Bank Debt—The Trust accounts for asset exchanges with creditor banks in compliance with Staff Accounting Bulletin No. 5 issued by the staff of the Securities and Exchange Commission. Accordingly, the difference between the lower of cost or estimated fair market value of the investment exchanged and the consideration received is reported as an extraordinary credit in the financial statements. Under this concept, fair market value represents the estimated selling price an investment will bring if exposed for sale in the open market, allowing a reasonable time to find a purchaser, and assumes a rate of return to the purchaser consistent with the risk elements involved. As indicated above, the Trust reviews each investment on a quarterly basis which results in mortgage loans being carried at the lower of cost or net realizable value and real estate held for resale being carried at the lower of cost, net realizable value or fair market value at date of foreclosure. Accordingly, in many instances, fair market value at date of exchange will be less than the Trust's carrying value prior to the exchange. In such instances, the investment is further written down to fair market value resulting in an increase in the provision for possible losses and a corresponding increase in the extraordinary gain. See Note 7 for further information.

MCI COMMUNICATIONS CORPORATION

Income Taxes
The Company files a consolidated Federal income tax return including all subsidiaries in which it holds 80 percent or more of the outstanding voting common stock. Tax benefits, if realized, resulting from utilization of consolidated loss carryovers will be recorded as extraordinary credits to income. Tax benefits relating to loss carryovers of acquired subsidiaries, if realized, will be recorded as a retroactive adjustment to the accounting for the purchase transaction. Investment tax credits, to the extent available, will serve to reduce future federal income tax liabilities after loss carryovers have been used.

SANDERS ASSOCIATES, INC.

Income Taxes—The Company provides for federal income taxes on pretax accounting income at statutory rates. For financial statement purposes, investment tax credits are used to reduce the provision for federal income taxes in the year in which qualified property is placed in service. The utilization of net operating loss carryforwards is recognized as an extraordinary credit in the consolidated statement of income.

SHATTERPROOF GLASS CORPORATION

Sale of Investment in Mexican Subsidiary
Gain on the sale of an investment in a Mexican subsidiary is recognized only to the extent of cash received in excess of the cost of the investment. Such gain (less applicable Federal income taxes) is presented as an extraordinary credit.

FOREIGN CURRENCY TRANSACTIONS

ADDRESSOGRAPH-MULTIGRAPH CORPORATION

Translation of Non-U.S. Currencies—Assets and liabilities stated in other currencies are translated into U.S. dollars at current market rates of exchange except for inventories, property, plant, equipment, rental equipment and property under capital leases, which are translated at rates prevailing when the assets were acquired. Revenue and expense accounts are translated at monthly current rates of exchange, except accounts that relate to assets translated at historical rates which are translated on the same basis.

DONALDSON COMPANY INC.

Translation of Foreign Currencies: The accounts of the overseas subsidiaries are translated into United States dollars in the accompanying financial statements. Current assets, except inventories, current and long-term liabilities are translated at rates prevailing at year end. Inventories, non-current assets and depreciation are translated at historical rates. Income and expenses, except depreciation, are translated at weighted average rates in effect during the year. Net translation gains and losses are included in operations.

HOUSTON NATURAL GAS CORPORATION

Translation of Currencies. The accounts of foreign subsidiaries are translated as follows: current assets, except inventories and prepayments, current liabilities and long-term debt are translated at the rate of exchange in effect at the end of the period; other assets and liabilities at the exchange rates prevailing when acquired or incurred; sales, cost of sales and expenses at the average exchange rates during the period except depreciation and amortization charges which are translated at the rates prevailing when the related assets were acquired. Translation gains and losses (which have been immaterial) are included in income.

PEAVEY COMPANY

Foreign Currency Translation

The fiscal 1977 financial statements of the Company's foreign subsidiary have been translated in accordance with Statement No. 8 of the Financial Accounting Standards Board. The effect on the current year's earnings is not material. Prior years have not been restated as the effect is not material.

THE PERKIN-ELMER CORPORATION

Translation of Foreign Currencies

The financial statements of foreign operations are translated in accordance with FASB Statement No. 8. Accordingly, net charges or credits resulting from the translation of monetary assets and liabilities are included in net income for the period. Prior to Fiscal 1977, such items were deferred and amortized over a period proportionate to the remaining life of property, plant and equipment, and the turnover period of inventory. The effect of this change on the current year and prior years is not material and, accordingly, the change has not been applied retroactively. Exchange adjustments included in the determination of net income for 1977 and 1976 were not significant.

OTHER FOREIGN TRANSACTIONS

DRESSER INDUSTRIES, INC.

Consolidation:

All majority-owned subsidiaries, other than financial service and real estate companies, and foreign companies whose earnings are subject to material financial or political risks are consolidated. All significant intercompany accounts and transactions are eliminated.

Investments in unconsolidated subsidiaries and in 20-50% owned affiliates are reported at cost plus the Company's equity in undistributed earnings. However, foreign earnings which are subject to material financial or political risks are reserved until remitted in U.S. dollars.

GENERAL EXPLORATION COMPANY

Foreign Investments, Licenses and Exploration Costs

Acquisition, exploration and development costs incurred in foreign countries (other than Canada) are capitalized on a country-by-country basis. Because of the increased uncertainties in foreign investments (political and otherwise), the Company adopted the policy (effective January 1, 1976) whereby, pending the discovery of commercial reserves in any country, a reserve for the amortization of foreign investments, licenses and exploration costs will be provided over the anticipated exploration period (initially estimated to be five years). When foreign licenses and investments are abandoned, the applicable capitalized costs will be written off against the reserve for amortization and any costs in excess of the reserve will be charged to expense. When commercial reserves are discovered, the capitalized costs for the applicable country will be amortized on the basis previously discussed for domestic oil and gas properties. The effect in 1976 was a decrease in net income of $289,000 and a decrease in earnings per share of $.08 ($.06 on a fully diluted basis).

HARNISCHFEGER CORPORATION

Consolidation—The consolidated financial statements include the accounts of all majority-owned subsidiaries except a wholly-owned domestic finance subsidiary, which is accounted for under the equity method, and a wholly-owned Brazilian subsidiary, which is carried at cost because its earnings are subject to material financial risks. Investments of less than 20% ownership are carried at cost or assigned value. Intercompany transactions have been eliminated in the consolidated financial statements.

THE HOOVER COMPANY

Investment Grants in the United Kingdom ($566,000 in 1976 and $1,200,000 in 1975) have been used to reduce the cost of property, plant, and equipment. The effect of such reductions together with prior years' reductions was to decrease depreciation by approximately $873,000 and $914,000 in 1976 and 1975, respectively.

Income Taxes: Timing differences arise as a result of recognizing certain items of income and expense in different periods for financial reporting and for income tax purposes. Deferred taxes are provided on such timing differences which consist principally of accelerated depreciation, United Kingdom tax relief for inflationary increases in inventory, and provision for certain accrued expenses.

RESERVE OIL AND GAS COMPANY

Exploration and development costs in Canada, other foreign areas and the OCS are capitalized under the full-cost method of accounting. Depletion and depreciation of Canadian properties are computed on the unit-of-production basis. Costs of other foreign and OCS properties are amortized over an estimated holding period until economic reserves are established, at which time the unit-of-production method will be utilized. At December 31, 1976 and 1975, the unamortized costs of Canadian properties amounted to $41,526,000 and $34,787,000, respectively; and unamortized costs of other foreign and OCS properties amounted to $11,377,000 and $5,452,000, respectively. Reserve uses the full-cost method of accounting for foreign areas and OCS properties because of the relative high risk of exploration in these areas as opposed to the more developed status of the major oil provinces in the continental United States, for which the successful efforts method of accounting is used.

FRANCHISE & LICENSE

CDI CORPORATION

Franchise Revenues—Proceeds from the sale of franchises are received at the time a franchise agreement is signed; however, recognition of franchise revenues and related direct expenses is deferred until the franchisee commences business.

THE COCA-COLA BOTTLING COMPANY OF MIAMI, INC.

Intangibles

The cost of territorial franchises and investments in subsidiaries in excess of the fair value of net assets at dates of acquisitions are being amortized (in accordance with the provisions of Accounting Principles Board Opinion No. 17) by the straight-line method over a period of 40 years, except for those acquired prior to November 1, 1970, which are not being amortized. Management believes there has been no diminution in their carrying value.

HEMINGWAY TRANSPORT INC.

Franchises and Operating Rights:

Franchises and operating rights are stated at cost. In the opinion of management, there has been no reduction in the value of these rights and accordingly no amortization is reflected in the consolidated financial statements.

THE PARKER PEN COMPANY

Revenue Recognition

Revenue is recognized on sales of products at the time of shipment and on temporary help services at the time service is rendered. Initial license fees are recorded as income when received and when the licensee starts operating. Expenses associated with the issuance of license agreements are charged to expense as incurred. Continuing franchise fees from license agreements are recorded as revenue as the fees are earned.

TACO BELL

(d) Cost of Reacquired Franchises and Leasehold Interests

The Company operated 95 restaurants as of February 28, 1977 and 82 restaurants as of February 29, 1976, the franchises of which were reacquired from franchisees. The cost of such reacquired franchises and leasehold interests is being amortized over the lease terms (6 to 20 years, including option periods) which remained at the dates of acquisition.

(e) Leasehold Interests

Leasehold interests include primarily labor and related departmental costs incurred in selecting sites, negotiating leases and monitoring construction of restaurants. Such costs, which vary from $5,000 to $14,000 per restaurant, are amortized over the lives of the related leases on Company-operated restaurants and are charged to expense on franchised restaurants when they are opened. The Company had 211 and 188 Company-operated restaurants with related leasehold interest costs at February 28, 1977 and February 29, 1976, respectively. All costs incurred for training, promotion, cleaning, etc., prior to the opening of a restaurant are expensed.

(f) Initial Franchise Fees

The Company defers recognition of initial franchise fees and expenses related thereto until such time as certain services have been performed and the related restaurants open for business.

TELE-COMMUNICATIONS INC.

Franchises and Route Costs—This includes franchises, permits, licenses, microwave service contracts and route costs. The difference between the cost of acquiring subsidiaries and amounts assigned to their tangible assets has been allocated to franchises and route costs. Amounts relating to acquisitions initiated prior to October 31, 1970 are not being amortized because, in management's opinion, there has been no diminution in value; amounts relating to acquisitions initiated after October 31, 1970 are being amortized on a straight-line basis over 40 years. Substantially all of the remaining balance in franchises and route costs represent amounts associated with microwave service contracts and expenses incurred by the Company or its subsidiaries in attempting to obtain CATV franchises and are being amortized on a straight-line basis over 10 to 15 years.

INTANGIBLES

CONDEC CORPORATION

Excess of cost of subsidiaries over net assets acquired represents the excess of the total purchase prices over the fair values of the net assets of companies acquired in transactions accounted for by the purchase method. Since Condec does not consider that the amounts paid in excess of the net asset values acquired have diminished in value, these amounts are not being amortized.

DIAGNOSTIC DATA, INC.

Patents and patent applications—Costs related to patents and patent applications are deferred and amortized over seventeen years.

LITTON INDUSTRIES, INC.

Cost of Businesses Purchased Over Corresponding Net Assets

All present amounts which relate to companies acquired prior to 1970 are believed to have continuing value to the Company and are not being amortized. Any future amounts relating to subsequent acquisitions, while they also are believed to have continuing value, will be amortized in accordance with the provisions of Accounting Principles Board Opinion 17.

A.C. NIELSEN COMPANY

Intangible Assets

The cost of purchased patents is amortized over the estimated useful lives of the patents. Generally, the cost of petroleum related subscription lists and data files is charged to income over their estimated useful lives. The excess of cost over net assets of acquired companies is amortized on a straight-line basis over the estimated periods of benefit (presently four to ten years).

REPUBLIC CORPORATION

Intangibles Arising from Purchased Businesses

Costs in excess of the estimated fair value of net tangible assets of purchased businesses are reflected in the consolidation balance sheets as "Intangibles arising from purchased businesses." The carrying value of these businesses is reviewed each year and adjustments are made as considered necessary. The balance is being amortized using the straight-line method over periods not exceeding forty years.

THE UNITED STATES SHOE CORPORATION

The excess of cost of investments over book value of net assets acquired arose primarily in connection with acquisitions in 1966 and 1968. This amount is not being amortized.

INVENTORIES

CAMPBELL SOUP COMPANY

Inventories—Raw materials, supplies and foreign subsidiaries' container inventories are priced at average cost but not in excess of current replacement costs. Domestic container inventories are priced at cost determined by the last-in, first-out (LIFO) method. Finished products, except for the domestic container components therein for which the LIFO method is used, are priced at average production cost but not in excess of selling price less distribution costs.

GILFORD INSTRUMENT LABORATORIES INC.

Inventories

Inventories are stated at cost (principally on the first-in, first-out basis) not in excess of market value. Inventory cost includes materials, direct labor, and manufacturing overhead costs. Market is determined by comparison with recent purchases or realizable value.

LITTON INDUSTRIES, INC.

Inventories and Long-term Contracts

Defense, Commercial and Marine Systems Group inventories are stated at the lower of average cost or market. Other inventories are generally stated at the lower of cost (first-in, first-out method) or market.

All contract costs, including general and administrative expenses, are included in Marine inventories; all such costs except general and administrative expenses are included in other inventories. Title to certain inventories vests in the U.S. Government by reason of contract provisions related to progress payments.

Revenues on contracts other than long-term contracts are generally recognized as products are delivered, based on estimates of ultimate contract price. Profits on these contracts are recognized on delivery using the average profit expected, based on current estimates of final contract values and costs. Revenues and profits on long-term contracts are recognized under the percentage-of-completion method of accounting.

Revenues and costs, as well as work in process, are included in the financial statements based on current estimates of final values.

Any anticipated losses on contracts (estimated final contract costs in excess of estimated final contract revenues) are charged to current operations as soon as they are determined.

MARSHALL FOODS, INC.

Commodity Trading—

Commodity trading in eggs and feed grains is conducted generally to hedge against market fluctuations in the prices of eggs used in the Company's egg processing business and feed grains used for its poultry flocks, and accordingly the gains and losses are included in cost of sales.

J.W. MAYS, INC.

Merchandise Inventories: Inventories are stated at the lower of cost or market. Approximately 47% of the cost of inventories is valued at net invoice cost and the remainder is valued using the retail inventory method.

MONFORT OF COLORADO, INC.

At August 28, 1976, all inventories except live range cattle, supplies, and other food products are stated at last-in, first-out (LIFO) cost, which is below market. Live range cattle are stated at the lower of principally identified cost or market. Supplies and other food products are stated at the lower of first-in, first-out (FIFO) cost or market. Previously, inventories were stated under the same methods except that live sheep were stated at the lower of first-in, first-out (FIFO) cost or market, and dressed meat and by-products were stated principally at market, less allowances for distribution and selling expenses.

From time to time, the Company partially hedges its inventories by entering into contracts on commodity exchanges. The results of these hedging transactions are included in cost of products sold. The computation of market value of inventories includes adjustments for gain or loss in open contracts.

PEAVEY COMPANY

Inventories

Inventories of grain, flour and millfeed are valued at market prices at July 31 and are adjusted to reflect unrealized gains or losses on open purchase and sale contracts. Other inventories are valued substantially at the lower of cost (first-in, first-out) or market.

THOROFARE MARKETS INC.

Merchandise and Supplies:

Merchandise and supplies are stated at the lower of cost or net realizable value. The cost of merchandise in warehouses, bulk meat and store supplies is determined by the first-in, first-out method. Merchandise in retail stores is valued at year-end retail prices less the estimated applicable mark-up percentage.

THE UNITED STATES SHOE CORPORATION

Inventories—Inventories are stated at the lower of cost or market; costs are determined using primarily moving averages and retail inventory methods, which approximate first-in, first-out costs.

INVESTMENTS AND UNCONSOLIDATED AFFILIATES

CHELSEA INDUSTRIES INC.

Investments

Investments in unconsolidated affiliates are accounted for on the equity method.

COMPUTER SCIENCES CORPORATION

Investment in Unconsolidated Affiliates

Investments in affiliated companies in which ownership is 20% or more are carried at the Company's equity in the underlying net assets of such companies. Investments in less-than-20%-owned affiliates are carried at cost or estimated net realizable amounts, whichever is lower.

DAYTON HUDSON CORPORATION

Joint Venture Investments. The Corporation accounts for its investment in joint ventures using the equity method, on a one-month lag basis. All the joint ventures of the Real Estate subsidiaries have adopted a calendar year as their fiscal year. See Note G for condensed financial statements of the combined joint ventures.

DIAMOND M DRILLING COMPANY

Investments in less than majority-owned affiliates are accounted for under the equity method. Investments and advances, at cost, are increased or decreased by the Company's share of undistributed earnings or losses of the affiliates, and differences between the Company's investment and its equity in the net assets of the affiliates are amortized to income as further explained in Note 2.

The equity method is used for one 10% owned affiliate because that affiliate's only asset and its sole source of income is a subordinated note receivable from another affiliate in which the Company owns a 50% interest.

EARTH SCIENCES, INC.

(b) Investment in Alumet Partnership and Alex Joint Venture (Alumet Group)

The Company accounts for its investment in the Alumet Partnership and Alex Joint Venture under the equity method of accounting. Capitalizable expenditures are included in the investment accounts at cost and adjusted for the Company's share of any earnings or losses of the Partnership or Joint Venture operations. Research and exploration costs incurred by the Company are charged to expense in accordance with the Partnership's and Joint Venture's policies of expensing such costs.

At December 31, 1976, neither the Partnership nor the Joint Venture had any properties in production. The ultimate value of the Company's investments in the Alumet Partnership and the Alex Joint Venture is dependent upon the commercial development of the mineral deposits or sale of its investment therein. If the Partnership and/or Joint Venture is determined to be unsuccessful then the related investment will be written off at that time.

HONEYWELL INC.

Nonconsolidated Companies

Investments in capital stock of nonconsolidated subsidiaries and companies owned 50% or less (nonconsolidated companies) are carried at cost and are adjusted to reflect equity in earnings or losses since acquisition.

The nonconsolidated finance subsidiaries purchase customer obligations under rental and sales contracts for computer systems, related products, and computer services from consolidated subsidiaries of Honeywell Inc. As consideration, the selling subsidiaries pay a fee based upon the finance subsidiaries' expenses less interest income. All administrative functions relating to the receivables are performed by the selling subsidiaries.

In the Summary of Income, the income before income taxes of nonconsolidated finance subsidiaries is applied as a reduction of fees paid to those subsidiaries and the related income taxes are included in income taxes.

MIDLAND COOPERATIVES INCORPORATED

Unconsolidated Finance Companies—Midland uses the equity method of accounting for its investment (including subordinated debentures of $4,500,000) in two wholly-owned (except for minority interest in preferred stock) finance company subsidiaries, Trade Credit Corporation (TCC) and Midland Credit Corporation (MCC). The financial position of each subsidiary is shown separately in Note 6.

Investments-Other—Investments in cooperative organizations are principally in the form of common or preferred stock purchased for cash and patronage refunds received in the form of common or preferred stock, allocated surplus, or participation certificates. These investments are carried at cost or the face value of patronage refunds received; there is no market for the companies' equity in these organizations. The Companies' investments in these cooperatives generally relate to the volume of business done with the organizations because they are, in effect, corporate joint ventures organized to provide products and services which the companies would otherwise have to produce or obtain independently. Accordingly, some such cooperatives require each member-user to provide their proportionate share of equity capital through stock equalization plans; other retire equities through a variety of revolving plans over periods ranging from seven to ten years from date of issue.

Midland uses the equity method of accounting for its investment in Gibble Oil Company (50% owned), LVO International, Inc. and related joint ventures, and Midland-PRC Oil and Gas Partnerships.

Investments in debentures and other notes and in common stock of other organizations are at cost which does not exceed the companies' equity in underlying net assets or, if applicable, market.

WHITING CORPORATION

Investment—In fiscal 1977, the company adopted the equity method of accounting for its investment in Societè Francaise Whiting Fermont, a French affiliate, previously carried at cost, in recognition of obtaining control on April 29, 1977, as explained in note F. The cumulative effect of this accounting change amounted to $97,750, which reflected the company's earlier 45% equity interest in the French affiliate's net assets and net earnings. Retroactive treatment was not considered necessary because of the insignificant amounts involved.

LEASE COMMITMENTS

ADDRESSOGRAPH-MULTIGRAPH CORPORATION

Property Under Capital Leases—In 1977 the method of accounting for certain leases which had been classified as operating leases in prior years was changed to comply with the provisions of a recent Statement of Financial Accounting Standards which requires their capitalization as assets and the related lease obligations to be recorded as liabilities. Property under capital leases is amortized over the lease terms using the straight-line method. Amortization amounted to $4,434,000 in 1977 and $3,227,000 in 1976.

BEELINE, INC.

Certain lease obligations for automobiles have been capitalized inasmuch as they represent financing leases covering the estimated useful lives of the assets. The amounts capitalized in the accounts are equivalent to the present value of future lease payments using the interest rates stated in the leases.

SANDERS ASSOCIATES, INC.

Lease Accounting—Lease revenue is accounted for principally under the operating method. Lease rent is reported as revenue over the term of the lease and the lease terminal equipment is capitalized and depreciated over its estimated useful life. Lease acquisition costs are charged to operations as incurred.

The Company also leases terminal equipment under long-term noncancellable leases (Time Payment Sales) which are accounted for under the financing method whereby revenues, costs and income are recognized currently and the aggregate noncancellable rental, net of the amount of unearned financing income, is recorded as a receivable. The unearned financing income is recorded in decreasing amounts over the term of the lease.

LEASE CONTRACTS

ADDRESSOGRAPH-MULTIGRAPH CORPORATION

Leases of Equipment to Customers—Long-term noncancellable leases of equipment to customers are classified as sales-type leases and the manufacturer's profit on the transaction is recognized in income at the inception of the lease. Unearned income is amortized to income over the respective lease terms using a method which produces a substantially constant periodic rate of return.

AMERICAN FINANCIAL CORPORATION

Lease Operations. The finance method is used in accounting for "full payout" leases. Income is computed as the total rentals less the cost of the equipment (less reasonable residuals—generally less than 10%) and is recognized over the term of the lease by the sum-of-the-digits method. For income tax purposes, rental payments are recognized as income when received and related rental assets are depreciated. Provision has been made for related deferred income taxes. Substantially all leases written since 1969 have been finance-type leases.

Leases, other than finance-type, are accounted for by the operating method whereby the rentals are recorded as income when billed and related rental assets are depreciated.

AMERICAN SECURITY CORPORATION

Leveraged and Direct Lease Financing

The Bank's leasing subsidiary is an equity participant in a number of equipment lease trusts. The equipment is acquired by the trusts with funds derived from equity participants and non-recourse debt financing (leverage) obtained from unaffiliated financial institutions. Income on the investments is derived directly from the proceeds of the leases and investment tax credits and indirectly from the investment of temporary tax benefits.

The financing method of accounting is used to record income on leveraged lease transactions for financial reporting purposes while the operating method of accounting is utilized for income tax purposes. The consolidated balance sheet includes the leasing subsidiary's unrecovered investments in the lease trusts and accordingly excludes its proportionate share of the non-recourse debt of the trusts which approximated $25,100,000 and $20,500,000 at December 31, 1976 and 1975, respectively.

Direct lease transactions are accounted for on the financing method of accounting for book and tax purposes.

ANDERSON JACOBSON, INC.

(e) Operating Leases

The operating method of accounting is used to recognize revenues related to leased equipment. Rentals are recorded monthly as revenue when billed under lease contracts. Lease agreements are written on varying terms from month-to-month to three years. Most agreements contain a thirty-day cancellation provision, and the Company is responsible for the maintenance of the equipment.

NORTHWESTERN STEEL AND WIRE COMPANY

Leases: Rental payments under lease arrangements, which relate principally to certain equipment, are not material and are charged to income currently. The aggregate commitments under all leases are not material at July 31, 1977.

OPTICAL RADIATION CORPORATION

(d) Lease Contracts

Revenues from equipment leased under long-term contracts are recorded as sales in accordance with Financial Accounting Standards No. 13. Related bulb and service revenues are recorded as the services are performed.

LINE OF BUSINESS

COMPUTER SCIENCES CORPORATION

Nature of Business and Method of Reporting

The Company is engaged in the planning, design, engineering, development, implementation and operation of computer systems and computer-related communications systems, and in the operation of a proprietary remote data processing service called INFONET. A major portion of the Company's business is performed under contracts with numerous departments and agencies of governmental entities: Federal, state, local and foreign. For the year ended April 1, 1977, revenues from these sources represented 83% of total revenues, and related receivables at that date represented 79% of total receivables.

The Company reports its operations on a line-of-business method wherein revenues, expenses and operating income—before corporate general and administrative expenses, interest and taxes—are reflected for the Company's two major areas of operations. Operating results related to the INFONET remote data processing service are reported as such, and all other (including computer leasing) are reported as Contract Services.

DAYTON HUDSON CORPORATION

Financial Data by Line of Business

Dayton Hudson Corporation operates its Retail business through department, low-margin and specialty stores. Through its Real Estate business, it owns, develops and manages regional shopping centers and other commercial properties.

Separate financial statements have been presented for the Retail and Real Estate activities in addition to the Consolidated financial statements in order to describe more clearly the separate effects of the Retail and Real Estate activities on the Corporation's results of operations, flow of funds, and financial position. It is not always possible to total individual captions on the Retail and Real Estate financial statements to agree with Consolidated captions because informative reporting requirements differ widely between Retail and Real Estate. The following allocation methods have been employed to prepare the separate financial statements since legal entities are not exclusively Retail or Real Estate.

Assets, liabilities, revenues and expenses specifically identifiable as either Retail or Real Estate have been so designated, with those not specifically identifiable allocated as follows:

1. Shopping center property, including related depreciation, owned by Real Estate and utilized by the Corporation's department stores, is allocated to the applicable Retail stores on the basis of the percentage of gross area occupied by the stores. The common mall areas, heating, ventilating and air conditioning facilities of the shopping centers are considered Real Estate properties. Parking lot area is allocated on the basis of leasable space in the center, a practice consistent with industry standards.
2. Secured debt and the related interest expense are allocated on the same basis as the property pledged as collateral to the debt. Unsecured long-term debt has been assigned to Retail.
3. Property taxes are allocated on the basis of gross leasable area, in general accordance with terms of leases with shopping center tenants.
4. Separate income tax provisions are computed for each line of business. Tax benefits and items that require specific treatment in the Consolidated Federal income tax return are assigned to the originating line of business. Deferred income taxes have been assigned to the Real Estate or Retail line of business based on the assets or liabilities associated with those deferred taxes.
5. Corporate Office expenses are allocated based on assets, sales and payroll dollars.

Elsewhere in the annual report, financial information is presented for the department, low-margin and specialty stores groups.

THE NEWHALL LAND AND FARMING COMPANY

Accounting policies related to each of the Company's lines of business are:

Agriculture/Farming. Revenue is recognized as crops are sold. Most of the crops are sold to farm cooperatives (or to food processors) which market the crops throughout a period of approximately one year after harvest. At the time of delivery, the Company estimates the proceeds to be received from the cooperatives and records these amounts as unbilled receivables. During the year following harvest, the Company records any adjustments of such estimated amounts resulting from changing market conditions. Net income for the years ended February 28, 1977 and February 29, 1976 increased approximately $315,000 and $936,000, respectively, resulting from such adjustments. Revenues from crops sold outright to purchasers are recorded at the time of delivery.

Costs directly related to crops are included in inventory until a sale is recognized. Costs incurred during the development stage of vineyard and orchard crops (ranging from three to ten years) are capitalized and amortized over the productive life of the vines or trees. Farming costs which cannot be readily identified with a specific harvested crop or other revenue producing activity are expensed as incurred.

Agricultural inventories include materials and supplies, crops in process, harvested crops and processed crops (primarily dehydrated alfalfa and sugar beet products) and are valued at the lower of cost or market, determined on the first-in, first-out method.

Agriculture/Cattle. Revenue is recognized upon sale. Cattle inventory is valued at the lower of cost or market with cost determined on an average cost basis.

Agriculture/Commodity Futures Transactions. During the year ended February 28, 1977 the Company adopted a policy of hedging agricultural and cattle inventories and production in order to reduce the risk of price fluctuation by entering into futures contracts on the commodity exchanges. Gains and losses (both realized and unrealized) on hedging transactions are deferred until the sale of the related inventory. If deferring losses would result in inventory amounts exceeding estimated net realizable values, such losses would be recognized currently. Futures transactions which do not closely correlate to a specific commodity are valued at market.

Recreation. Food and merchandise revenues at the amusement park and other recreation activities are recorded as cash sales. Revenues from ticket sales are recognized as the tickets are presented for admission.

Energy. Oil royalties (and the Company's share of the revenues from refined products derived from royalties paid in kind) are recognized as the oil is produced and sold. Gas is sold under a long-term contract with a major utility and revenue is recognized as the gas is produced. Drilling and development costs of producing wells are capitalized and amortized over a period which approximates the period of recovery of the mineral reserves. Costs relating to nonproductive drilling are charged against income as incurred. Acquisition costs of unproven oil or gas properties are deferred and expensed as the leases are abandoned.

Real Estate/Commercial. Revenue from leasing commercial, industrial and multi-family housing properties is recognized in accordance with the provisions of the leases.

Real Estate/Land. Land sale transactions are generally under agreements which require release of the land sold from the lien securing the related notes receivable approximately in proportion to the amount of cash received. Revenues and related costs are recognized as if each release was a separate sale.

Real Estate/Residential. Revenue from sale of single family and condominium living units is recognized at the close of escrow. Inventory costs, including property taxes and interest on construction borrowings, are relieved based on the ratio of the sales value of each unit to the estimated total sales value of the project.

MARKETABLE SECURITIES

DONALDSON COMPANY INC.

Marketable Securities: Marketable securities are carried at cost which approximates market.

HOOVER BALL AND BEARING COMPANY

Short-term Investments: Short-term investments are stated at cost and accrued interest, which approximates market.

INTEGON CORPORATION

Investments—Investments in bonds and notes and mortgage loans are stated generally at amortized cost; investments in common stock (other than stock of affiliates) and investments in certain preferred stock are stated at market and other preferred stocks (which by their terms either must be redeemed by the issuing enterprise or are redeemable at the Company's option) are stated at cost. Realized gains and losses and provisions for permanent declines in market values are included in income. The costs of securities sold are based on actual costs determined by the method of specific identification. Unrealized gains and losses on stocks carried at market, less deferred income taxes where appropriate, are included in a separate shareholders' equity account and, accordingly, are not included in income. Investments in affiliates, principally joint venture corporations, are stated at cost adjusted for equity in operations since dates of acquisitions.

THE MIDLAND COMPANY

Marketable Securities—Marketable securities are categorized as fixed income securities (debt instruments and preferred stocks having scheduled redemption provisions) and equity securities (common stocks and preferred stocks which do not have redemption provisions). Fixed income securities are carried at cost and equity securities are carried at market value.

NATIONAL CITY CORPORATION

Investment Securities and Trading Account: Investment securities are carried at cost adjusted for amortization of premiums and accretion of discounts. The adjusted cost of specific securities sold is used to compute gain or loss on the sales.

Trading account assets and liabilities are stated at market. Income earned on trading account assets and expenses incurred on trading account liabilities and the gains and losses on the disposition of these assets and liabilities are recorded as trading account income.

THE PERKIN-ELMER CORPORATION

Marketable Securities and Time Deposits Maturing Beyond One Year

Marketable securities maturing beyond one year are stated at cost, adjusted for amortization of bond discount or premium, which approximates market.

METHOD OF ACCOUNTING

BARNES MORTGAGE INVESTMENT TRUST

The Trust reports on the accrual basis for both financial and tax purposes.

CENTRAL PENN NATIONAL CORP.

The Bank is on an accrual basis of accounting except for fiduciary fees and certain minor sources of income which are recorded when payment is received.

CRAWFORD & COMPANY

Method of Accounting—

The Company and its subsidiaries have consistently maintained their accounts and filed their income tax returns on the cash basis. The accompanying financial statements have been prepared on the accrual basis of accounting by application of memorandum entries to reflect uncollected billings, unbilled cases in process, unpaid expenses, etc. The estimated additional income tax provision ($1,345,000 in 1976 and $921,000 in 1975) on the accrual basis is included in accrued income taxes under current liabilities. The provision for income taxes in the statements of consolidated income and the accrued income taxes in the consolidated balance sheets have been computed on income determined on the accrual basis.

DAYTON HUDSON CORPORATION

Dayton Hudson Corporation uses the accrual basis of accounting, following generally conservative accounting policies. The following is a description of those policies.

OTTER TAIL POWER COMPANY

System of Accounts—The accounting records of the Company conform to the Uniform System of Accounts prescribed by the Federal Power Commission and the Public Service Commissions of Minnesota, North Dakota, and South Dakota.

Under such system, utility plant is stated at original cost and cost of additions includes contracted work, direct labor and materials, allocable overheads, and allowance for funds used during construction.

ROBERT MORRIS ASSOCIATES

Basis of Accounting

The accounting records of the Association are maintained on a cash basis except that cash receipts or disbursements for conferences, dues and other items applicable to future periods are deferred and recognized as income or expense in the period to which they apply.

MORTGAGE LOANS HELD FOR SALE

LMF CORPORATION

Mortgage Loans:

Mortgage loans held for sale in the course of business are stated at the lower of cost or market. In determining market value, consideration is given to commitments on hand from investors and prevailing market prices. Provision for losses in adjusting to market is charged to operations.

SECURITY PACIFIC CORPORATION

c) Loans (See Note 5)

Loans are generally carried at amounts advanced less payments collected. Mortgage loans held for resale by the mortgage banking subsidiary are carried at the lower of cost or aggregate market. Unearned discount on discounted loans is deducted from loans and is recognized in income using the sum of the digits method. On non-discounted loans, interest is accrued monthly as earned except that on business loans interest accruals are normally discontinued whenever the payment of interest or principal is 60 days past due, or sooner in special situations. Under such conditions previously accrued but uncollected interest income is reversed, and income is recognized only on a "when received" basis. Financing charges collected on federally insured real estate loans are deferred and amortized over the lives of the loans.

Loan losses are charged to the reserve for loan losses and recoveries are credited to the reserve. Provisions for loan losses are charged to expense and added to the reserve to maintain it at a level deemed appropriate by management to absorb known and inherent risks in the loan portfolio.

Real estate and other assets acquired in lieu of a loan are recorded at the lesser of estimated net realizable value or loan amount, and any difference between this and the loan amount is treated as a loan loss. Assets so acquired are carried among other assets and subsequent write downs are charged to other operating expense.

THIRD NATIONAL CORPORATION

Loans. Interest on commercial loans and real estate mortgage loans is recognized as income based upon the daily principal loan amounts outstanding; interest on installment loans is recognized as income based upon the seventy-eights method. Mortgage loans held for resale are carried at the lower of cost or estimated prevailing market value on an aggregate basis. The finance subsidiary recognizes income from discount basis direct installment loans and retail installment notes on the pro-rata (liquidation) method with 5% of the finance charges being recognized when the notes are acquired; income on interest-bearing loans is recognized on the collection basis.

NEGATIVE GOODWILL

HMW INDUSTRIES INC.

The excess of net assets acquired over the acquisition cost (negative goodwill) is amortized as a credit to income on a straight-line basis over fifteen years.

LMF CORPORATION

Excess of Net Assets Acquired Over Cost of Investment in Subsidiary:

The excess of net assets acquired over the cost of investment in Foster Lumber Company, Inc. is being amortized into income on a straight-line basis over a fifteen-year life.

PRF CORPORATION

The acquisition, which was structured as a purchase of assets, has been accounted for under the purchase method of accounting as prescribed by the Accounting Principles Board Opinion No. 16 (APB 16) issued by the American Institute of Certified Public Accountants. Accordingly, the operations of Desley-Edson have been included in the accompanying financial statements since September 1.

The excess of the estimated fair market value of the assets acquired (net of future tax effects of $1,105,000) was applied first to eliminate the non-current assets consisting of land, buildings, and machinery and equipment. The balance ($555,000) was added to deferred credits in the balance sheet as negative goodwill and is being amortized ratably over the seventeen-month period which management believes will be required by Desley-Edson to achieve profitable operations. In determining the results of its fiscal 1977 operations, Desley-Edson recognized approximately $300,000 of the future tax effects and amortized $163,000 of the negative goodwill.

NON-COMPETE AGREEMENTS

BAKER BROTHERS INC.

The employment contract with the Company's president provides for accrual out of future profits of amounts to be paid him following termination of employment with the Company, and provides for minimum payments for a maximum of ten years after termination for consultation services and a non-compete agreement.

FLOCK INDUSTRIES INC.

(d) Unamortized Covenant not to Compete—On November 28, 1972, the Company entered into an agreement with an employee and former shareholder, deceased in 1975, of the predecessor Corporation (Flock Embossing Corp.). This agreement provided for the cancellation at January 1, 1973 of a previously existing employment agreement dated August 1, 1968. In lieu of the obligations under the cancelled employment agreement, the Company is required to pay the former employee or his estate the sum of $100,000 in six annual installments of $16,666 each, commencing in 1973. In addition, the agreement prohibited said former employee from rendering services of any nature, or engaging in any business, competitive with that of the Company until January 1, 1982, without the Company's prior written consent. The covenant not to compete was being amortized as a charge to income, over a six-year period. As a result of the death of the former employee during 1975, the entire balance of the unamortized portion was applied against the proceeds of insurance policies on his life received by the Company in 1975.

U.N.A. CORPORATION

Covenants not to Compete

Covenants not to compete are being amortized over a ten year period (term of covenants) on the straight-line method (see Notes 4 and 7).

PENSION PLANS

ADDRESSOGRAPH-MULTIGRAPH CORPORATION

Retirement Plans—Expenses for retirement plans include current service costs and amortization of prior service costs generally over a 30-year period. Such costs are funded based on a variety of factors such as legal requirements and income tax considerations.

HELENE CURTIS INDUSTRIES, INC.

Employee Retirement Plans—The Company and its domestic subsidiaries provide retirement benefits to substantially all employees through contributory profit sharing plans, supplemental pension agreements with certain key employees, and, with respect to one subsidiary, a non-contributory pension plan. Prior service costs, which are not significant in amount, under the pension plan and agreements are amortized over periods of 10 and 30 years. Pension fund assets and balance sheet accruals exceed the liability for vested benefits.

Japanese subsidiary employees are covered by a retirement plan required by law. Upon termination, employees are entitled to receive a lump sum payment based on length of service, current rate of pay and whether termination is voluntary or involuntary. Provision has been made for these payments based upon the total amount payable assuming all employees terminated voluntarily as of the balance sheet date. This plan is not funded.

HOOVER BALL AND BEARING COMPANY

Retirement Plans: Pension costs, which include amortization of prior-service costs over periods of ten and thirty years (principally thirty years in 1976), are funded as accrued. Charges to operations under the deferred compensation plan represent amounts determined and awarded thereunder annually (see Note F). The estimated cost of providing group life and health insurance coverage to certain employees following retirement is charged to operations over the remaining employment period of the respective employees; such amounts are not funded.

LITTON INDUSTRIES INC.

Pension Plans

The Company has pension plans for most of its employees. Employees are eligible for benefits at age 65. Pension expenses for domestic and Canadian plans are provided and funded based on the actuarially determined costs of the plans. Pension expenses for other plans are based on actuarial computations and are funded in accordance with the laws of the applicable countries. The Company is in full compliance with the provisions of the Employee Retirement Income Security Act.

THE PERKIN-ELMER CORPORATION

Pension Costs

The Corporation has several pension plans covering substantially all of its employees. Pension expense was $3,726,000 in 1977 and $3,322,000 in 1976. The Corporation's policy in the United States is to fund all pension costs accrued. At July 31, 1977, there was no unfunded past service liability in the United States and, in addition, the actuarially computed value of vested benefits did not exceed the assets of the pension fund. Reserves for pensions have been established in West Germany and are included in Other Long-Term Liabilities.

SUPER FOOD SERVICES INC.

Retirement Plan—The Company has a non-contributory employee retirement plan which provides for monthly income at retirement (normally age 65) to eligible full-time employees not covered by a union plan. Pension costs, consisting of normal costs and amortization of past service costs over 30 years, are funded currently.

THOROFARE MARKETS INC.

Pension Plans:

Pension costs for the Company's hourly and salaried pension plans are computed by independent actuarial consultants and include current service costs and amortization of unfunded prior service costs over a thirty-five year period. It is the Company's policy to fund pension costs as accrued.

THE UNITED STATES SHOE CORPORATION

Employee Retirement Plans (Fixed Benefit)—The company has non-contributory retirement plans which provide for pensions to eligible employees, upon retirement, based on length of service and compensation. Prior service costs are being amortized and funded over approximately 30 years.

PRODUCT WARRANTY

ADVENT CORPORATION

Warranty Costs. Costs estimated to be incurred with respect to television projection system product warranties are provided for at the time of sale based upon estimates derived from experience factors.

ARCTIC ENTERPRISES, INC.

Product Warranties—Warranty reserves are provided as charges to current operations for estimated normal warranty costs and, if applicable, for any significant problems known to exist on products sold. Warranty costs on certain purchased parts and components, such as engines, are reimbursed to the company by supplying vendors.

MAGIC CHEF INC.

Product Warranty: Estimated warranty costs are provided for in the year of sale. Accrued costs applicable to obligations beyond one year are classified as a long-term liability.

SAFETRAN SYSTEMS CORPORATION

(e) Warranty Expense:
Anticipated costs related to product warranty are recorded generally when it is determined that claims are likely to be asserted. Such provisions are adjusted periodically based upon current estimates.

PROPERTY AND DEPRECIATION AND DEPLETION

ALEXANDER'S, INC.

Property and Equipment
Property and equipment are recorded at cost and depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets or, where applicable, the terms of the respective leases, whichever are shorter. Additions and betterments, including interest costs incurred during construction of new facilities, are capitalized, whereas costs of maintenance and repairs are charged to expense as incurred. Capitalization of interest was not significant in 1977 and no interest costs were capitalized in 1976.

BEELINE, INC.

b. Property, Plant and Equipment and Related Depreciation and Amortization Policies: Depreciation is computed using accelerated methods for substantially all assets other than leasehold improvements, and capitalized automobile leases, for which the straight-line method is used. The estimated useful lives used in computing depreciation and amortization expense are as follows:

Asset Description	Asset Life
Buildings and improvements	10 to 40 years
Machinery and equipment	3 to 10 years
Leasehold improvements	Term of leases
Capitalized automobile leases	3 to 4 years

Certain lease obligations for automobiles have been capitalized inasmuch as they represent financing leases covering the estimated useful lives of the assets. The amounts capitalized in the accounts are equivalent to the present value of future lease payments using the interest rates stated in the leases.

Maintenance and repairs are charged to expense as incurred and major renewals and betterments are capitalized.

The cost of property retired or disposed of is removed from the accounts along with the related reserves and any resulting gain or loss is reflected in income.

CONROCK CO.

Property, Plant and Equipment:
Depreciation is computed using the straight-line and double declining balance methods over the estimated useful lives of related properties.

Depletion of land, for financial reporting purposes, is computed based upon the quantity mined compared with the estimated quantity of recoverable rock and sand.

Maintenance, repairs and renewals are expensed except that expenditures which increase useful lives of plant and equipment items are capitalized.

Proceeds from condemnations are applied toward the replacement of condemned properties. Such policy does not result in recognition of income to the Company.

EARTH RESOURCES COMPANY

Property, Plant and Equipment:

Property, plant and equipment is stated at cost. Depreciation, other than for mining facilities, is based on the straight-line method over estimated service lives of three to twenty-five years. Depreciation, depletion and amortization of mining facilities, including development costs, are based substantially on the units-of-production method.

Expenditures for maintenance and repairs are charged to income as incurred. The company capitalizes major replacements and improvements and amortizes these costs over the periods benefited. The gain or loss on assets sold or retired is included in income.

GILFORD INSTRUMENT LABORATORIES INC.

Depreciation

Depreciation is computed for financial statement purposes using the declining-balance method for most buildings and improvements and the straight-line method for other assets. Different methods are used for income tax purposes in certain instances.

GOLDEN STATE FOODS CORP.

(b) Property and equipment—Depreciation and amortization are provided using the straight-line method over the following estimated useful asset lives:

Buildings	10 to 30 years
Machinery and equipment	3 to 10 years
Office equipment	5 to 10 years
Transportation equipment	3 to 7 years
Leasehold improvements	Lease period

Costs of normal maintenance and repairs and minor replacements are charged to expense when incurred. Major replacements or betterments of properties are capitalized. When assets are sold or otherwise disposed of, the cost and related reserves are removed from the accounts, and any resulting gain or loss from sales or abandonments is included in income.

GRAND CENTRAL, INC.

Depreciation and Amortization:

Provision for depreciation and amortization of plant and equipment has been computed using the following methods and annual rates:

Classification	Method	Rate
Buildings	Principally straight-line	2½ to 4%
Furniture and fixtures	Principally straight-line	10 to 25%
Leasehold improvements	Straight-line	Life of lease
Transportation equipment	Straight-line	16⅔ to 25%

Maintenance and repairs are charged to operating expenses. Renewals and betterments are capitalized. The cost and related accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts, and the gain or loss is reflected in the statement of income.

HOUSTON NATURAL GAS CORPORATION

Property, Depreciation, Depletion and Amortization. Maintenance and repairs of property and replacements and renewals of items deemed to be less than units of property are charged to operations. Additions and betterments are added to property accounts at cost. Units of property, plant and equipment of the natural gas business, except transportation equipment and abnormal retirements, retired or replaced are removed from the property accounts at cost, such amounts plus removal expenses, less salvage, are charged to accumulated depreciation, depletion and amortization. In the case of retirements of transportation equipment and abnormal retirements of natural gas business properties, and properties in the marine transportation, services and construction, industrial gases and coal businesses, the accumulated depreciation, depletion and amortization applicable thereto is removed from such accounts, and any gain or loss is included in income.

Allowance for funds used during construction of natural gas properties and other major projects is capitalized and amortized over the productive life of the related facilities.

The "full cost" method of accounting is used for oil and gas properties. Under this method of accounting, the cost of developed and undeveloped properties as well as those costs incidental to the acquisition, exploration and development of such properties are capitalized. Such costs will be expensed as incurred if the net undepleted balance of such costs equals or exceeds the value of all estimated oil and gas reserves.

Depreciation and depletion of oil and gas properties are computed on the unit-of-production method based upon the estimated reserves underlying all oil and gas properties.

Depletion of coal properties is computed on the unit-of-production method based upon the applicable estimated recoverable reserves.

Mine development costs are capitalized and amortized by the straight-line method over the mine's expected life.

Depreciation and amortization of other property, plant and equipment are computed by the straight-line method over the expected life of the asset.

INDIANA GAS COMPANY, INC.

(c) Utility Plant, Depreciation and Maintenance

Construction costs include overheads for payroll related costs and administrative and general expenses as well as an allowance for the costs of funds used during construction. The credit for funds so used is reflected in other income.

The companies provided for depreciation on the original cost of depreciable plant in service using straight line rates which, exclusive of amounts charged to clearing accounts, averaged 2.80% on an overall basis in 1976. In 1975 these rates averaged 2.68%.

Maintenance and repairs of property units and renewals of minor items are charged to expense as incurred.

INTERMOUNTAIN GAS COMPANY

Utility Plant

Utility plant is stated at original cost. Such costs include payroll related costs such as taxes, pensions and other employee benefits, general and administrative costs and the allowance for funds used during construction. The principal plants and properties are owned in fee by the Company and are subject to the lien of the Company's First Mortgage and Deed of Trust. For ratemaking purposes the IPUC has excluded $1.0 million net utility plant from the rate base (see Note 8).

Allowance for Funds Used During Construction

The allowance for funds used during construction included in other income represents the cost of funds applicable to utility plant in process of construction. Under established regulatory rate practices, the Company is permitted to earn a fair return on such costs and to recover them in the rates charged for utility services. The Company used a composite rate of 9.5% during 1976 and 1975.

Depreciation and Maintenance

Depreciation is provided in the accounts by applying a straight-line composite rate of 3% to the original cost of utility plant in service. The depreciation rates in use have been approved by the IPUC and the reasonableness of the depreciation rates is reviewed periodically by the Company. The Company amortizes intangible property over a period of 50 years. Depreciation of gas appliances leased to customers is determined by use of the straight-line method based on estimated useful lives of 12 years. For income tax purposes, depreciation is provided on different bases and methods as explained in Note 2.

The Company charges maintenance and repairs, including the cost of replacement of minor items of property, to maintenance expense accounts. Replacements and betterments of property are charged to utility plant accounts. Upon retirement of property subject to depreciation, the cost of such property is removed from the plant accounts and charged to the accumulated provision for depreciation, and the related salvage, net of removal costs, is credited thereto.

J. W. MAYS, INC.

Fixed Assets: Depreciation is calculated using the straight line method and the declining balance method. Amortization of improvements to leased property is calculated over the shorter of the life of the lease or the estimated useful life of the improvements. Maintenance, repairs, renewals and improvements of a non-permanent nature are charged to expense when incurred. Expenditures for additions and major renewals or improvements are capitalized. The cost of assets sold or retired and the accumulated depreciation or amortization thereon are eliminated from the respective accounts in the year of disposal, and the resulting profit or loss is credited or charged to income.

NORTHWESTERN STEEL AND WIRE COMPANY

Plant and Equipment: Plant and equipment are recorded at cost. Significant replacements and betterments are charged to the plant and equipment accounts, while maintenance and repairs are charged to expense as incurred. When plant and equipment are retired, the related costs and accumulated depreciation are removed from the respective accounts and the net gain or loss is reflected in income.

Depreciation: For financial reporting purposes, depreciation is calculated principally on the straight-line method over the estimated useful lives of the depreciable assets. Primarily accelerated depreciation methods are used for income tax purposes. Estimated useful lives are generally 40 years for buildings, 12 and 18 years for mill machinery and a 3 to 20 year range for all other equipment. Depreciation of the cost of molds, stools and dies is computed on a volume of production basis.

THE PERKIN-ELMER CORPORATION

Property, Plant and Equipment and Depreciation

Major renewals and improvements that significantly add to productive capacity or extend the life of an asset are capitalized. Repairs, maintenance and minor renewals and improvements are charged to income currently. When items of property, plant and equipment are retired or otherwise disposed of, accumulated reserves for depreciation and amortization, together with any amount realized on disposal of assets, are offset against the cost of assets retired and the resulting profit or loss is included in income.

Depreciation is computed principally on the sum-of-the-years digits and declining-balance methods in the United States for both financial statement and tax purposes. In other countries, the straight-line method is generally used.

ROBBINS & MYERS, INC.

Capital Assets. Buildings, machinery and equipment, and any expenditures for items which materially increase the useful life of existing assets, are capitalized at cost. Buildings leased under industrial revenue bond arrangements are shown as owned assets and the corresponding debt as a company liability. Normal maintenance and repair and new facility start-up costs are expensed as incurred. Accelerated depreciation methods are used principally for both corporate financial reporting and federal income tax purposes taken over the estimated useful life of the asset.

SPACELABS, INC.

(c) Depreciation, Amortization, Maintenance and Retirement Policies:

Depreciation and amortization of equipment and leasehold improvements are provided using methods and rates as follows:

Description	Method	Rate
Machinery and equipment	Double declining balance and straight-line	2-8 years
Furnitures and fixtures	Double declining balance and straight-line	10 years
Leasehold improvements	Straight-line	Life of lease or the life of asset, whichever is shorter

The company capitalizes expenditures that materially increase the life of the asset. Maintenance and repair costs are charged to income as incurred. The cost and related accumulated depreciation or amortization of equipment and leasehold improvements sold or retired are removed from the accounts and the resulting gains or losses are included in income.

THE UNITED STATES SHOE CORPORATION

Depreciation—Depreciation and amortization of property, plant and equipment are provided over the estimated useful lives of the assets, or the remaining terms of leases, where applicable, on primarily a straight-line basis.

RECEIVABLES

AMERICAN SECURITY CORPORATION

Valuation Allowance for Possible Loan Losses

The valuation allowance for possible loan losses represents management's estimate of an amount adequate to provide for possible losses which may be incurred in the realization of the loan portfolio. The provision for possible loan losses is charged to expense in an amount sufficient to maintain the valuation reserve at an adequate level.

In their determination of the propriety of the amount of the valuation reserve, management takes into account factors which include the status of identified problem loans, historical trends in loan charge-offs and recoveries by major loan category, current economic conditions, delinquencies, and other factors which bear on collectibility.

CENCOR, INC.

(c) Credit Losses

The unpaid balance of installment notes receivable on which no installments have been received for one hundred eighty days and which are considered uncollectible by management are charged off against the reserve for credit losses semiannually at June 30 and December 31.

CENTRAL PENN NATIONAL CORP.

Valuation Reserve for Loan Losses

For financial reporting purposes, additions to the reserve are made from the Provision for Loan Losses which is charged to operating expense. The amount of the reserve is based upon management's evaluation of current economic conditions, changes in the character and size of the loan portfolio and other pertinent indicators.

COBE LABORATORIES, INC.

Bad Debts:

The reserve for bad debts is determined using historical information and current evaluations of accounts.

CHELSEA INDUSTRIES INC.

Accounts Receivable

The Company's broad fabrics group uses factors for credit administration purposes. Under factoring agreements, the factors purchase the group's trade accounts receivable and assume all credit risks without recourse. Advances from factors are credited against the amounts due from factors.

EASTERN UTILITIES ASSOCIATES

Accounts Receivable: It is the policy of the companies to write off doubtful accounts receivable directly to expense when deemed uncollectible.

FIRST NATIONAL CINCINNATI CORPORATION

c. Loans: Secured and unsecured loans are stated at the principal amount outstanding net of unearned discount. Interest on loans is recognized as income based on the principal amount outstanding.

d. Reserve for Possible Loan Losses: The reserve for possible loan losses, which is reported as a deduction from loans, is available for loan charge-offs. This reserve is increased by provisions charged to earnings and is reduced by loan charge-offs, net of recoveries. The provision from earnings is based on management's evaluation of the effects on the loan portfolio of current economic conditions and changes in the mix and levels of the various types of loans, on past charge-off experience, and on other pertinent information. (See Note 3.) For income tax purposes, the maximum addition to the reserve allowable under present Federal income tax law is provided. The difference between this amount and the provision charged to operating expenses results in a deferred income tax and a contingency reserve or segregation of Undivided Profits which is not available for the payment of dividends.

FRIEDMAN INDUSTRIES, INCORPORATED

Receivables: Sales and income are recognized at the date of product shipment, and accounts receivable are recorded at that time. Earnings are charged with an allowance for doubtful accounts receivable based on collection experience and a review of the collectibility of specific accounts. Accounts deemed uncollectible are charged against this allowance.

JACOBSON STORES INC.

Jacobson Stores Inc. has agreed to accept re-assignment of accounts receivable sold or assigned to the finance subsidiary which reach a defined state of delinquency.

A. C. NIELSEN COMPANY

Unbilled Expenditures for Clients
Costs of coupons purchased in connection with Clearing House activities and expenditures under certain service contracts are billed to clients after processing of required data is complete.

NORTHERN CALIFORNIA LOAN ASSOCIATION

Provision for Losses. The Association provides for estimated losses on loans and real estate owned when the net realizable value is less than the Association's investment in such assets. The allowance for possible losses is determined without any offset for anticipated gains. No provision for losses on mobile home loans has been provided because these loans are made with recourse to servicing agents.

OREGON METALLURGICAL CORPORATION

Uncollectible Accounts Receivable
Since only minor losses have been experienced on uncollectible accounts receivable no reserve for doubtful accounts is deemed necessary.

PROPERTY CAPITAL TRUST

Provision for Possible Investment Losses
Provisions for possible investment losses are charged to income in amounts equal to approximately 5% of net income before the loss provision to provide for unpredictable factors which on occasion may adversely affect real estate investments. Additional provisions for possible investment losses are charged to income when required based upon reviews and evaluations of the investment portfolio to determine the overall reasonableness and adequacy of the loss allowance.

THE J. M. SMUCKER COMPANY

Trade Receivables: Current earnings are charged with an allowance for doubtful accounts based on experience and any unusual circumstances that may affect the ability of customers to meet their obligations. Trade receivables are reflected in the balance sheet net of such accumulated allowances. Accounts deemed uncollectible have been charged against this allowance.

STEWART SANDWICHES, INC.

Trade Accounts Receivable and Bad Debts
The Company uses the specific charge-off method for uncollectible accounts. Bad debts in the current and prior years have not been material.

SUNAIR ELECTRONICS INC.

(e) Allowance for Doubtful Accounts Receivable—

The Company follows the reserve method of providing for doubtful accounts receivable. The reserves for 1976 and 1975 are not significant.

RECLASSIFICATION

AIR CALIFORNIA

Change in Classifications—Statements of Earnings and Retained Earnings

As of December 31, 1976, the Company has adopted a reporting format more responsive to the Uniform System of Accounts and Reports of the Civil Aeronautics Board as it applies to classification of profit and loss accounts. The changes in classification apply primarily to Non-operating Income and Expenses which were previously included in Operating Revenues and Expenses and to the presentation of taxes on income. The 1975 amounts have been restated to conform to the classification changes and enable comparability between the periods. See Note 5 concerning the presentation of income taxes.

CENTURY TELEPHONE ENTERPRISES INC.

Reclassifications—

Certain reclassifications have been made to conform 1975 amounts to 1976 classifications; the principal one of which was to combine, on the consolidated statements of income, the operations of "Service and Other" with the operations of "Construction and Supply."

DATAPOINT CORPORATION

Reclassification

For purposes of comparability, certain reclassifications have been made to the 1976 consolidated balance sheet and statement of changes in financial position to conform to practices adopted in 1977. Extended test equipment (equipment utilized and tested internally for periods extending up to 180 days), previously included in property, plant and equipment, has been reclassified to finished products inventories. Refurbishment units (equipment off-rent and in the process of being refurbished and upgraded to present standards), previously classified as work in process inventory, have been reclassified to equipment leased to customers. Field support spares, previously included in raw materials inventory, have been reclassified to equipment leased to customers.

FIRST MARYLAND BANCORP

Reclassification—In recent periods the Bank has been placing otherwise uninvested funds in short-term interest-bearing Eurodollar deposits with foreign banks and foreign branches of domestic banks with maturities up to 143 days at December 31, 1976. Since these amounts have become significant, the 1975 balances have been reclassified from loans to a separate category in the statements of condition. Related income has also been reclassified.

GENESCO INC.

Much publicity has recently been given Employee Stock Ownership Plans (ESOP). The company has concluded that its Employee Incentive Stock Plans embrace most of the ESOP principles. Therefore, consistent with currently emerging trends, the accounting for these plans was changed in July 1976. The effect of this change was to retroactively eliminate the employee incentive stock purchase accounts as an asset and treat them as a reduction of stockholders' equity. The company treats any short-term bank loans which the trustee of the stock plans might have as a current liability even though not guaranteed. There were no such loans at 31 July 1976. Current liabilities at 31 July 1975 include short-term bank loans to the trustee of $12,900,000. Trustee obligations to GFC are treated as a reduction in the company's investment in GFC.

Financial statement reclassifications: Consistent with current accounting trends, all classes of preferred stock have been restated to liquidation value, retroactive to date of issuance. The effect of this restatement at 31 July 1975 was to reduce paid in capital $71,900,000 and retained earnings $20,300,000 and to increase preferred stock by $92,200,000 all with no effect on total stockholders' equity.

The current portion of lease obligations has been reclassified to current liabilities.

HAYES-ALBION CORPORATION

Reclassifications—Certain amounts in the 1976 financial statements have been reclassified to conform to the 1977 classifications.

HUMANA INC.

Certain accounts for 1975 have been restated to conform with 1976 classifications, with no effect on previously reported net income or stockholders' equity. The principal change related to the presentation of gross revenues and contractual allowances.

PIMA SAVINGS AND LOAN ASSOCIATION

Reclassification of Previously Reported Information: The 1975 financial statements reflect certain reclassifications to conform with 1976 classifications. The reclassifications are a result of disclosing separately the amount of time certificates of deposit and securities purchased under resale agreements.

TELEPROMPTER CORPORATION

In 1976, Teleprompter revised the format of the financial statements to improve the presentation. All income taxes are now included under the caption "income taxes" in the statement of operations whereas, in prior years state and foreign income taxes were included in selling, general and administrative. The consolidated balance sheet has been changed from a classified presentation to a nonclassified presentation (i.e., current assets are no longer segregated from noncurrent assets, and current liabilities are no longer segregated from noncurrent liabilities). This change was made because revenues are generated principally from the use of property, plant and equipment and other noncurrent assets and Teleprompter believes that a nonclassified presentation is more meaningful than a classified presentation.

RESEARCH AND DEVELOPMENT

ASPRO INC.

Start-up and Pre-operating Costs

Payroll, utilities, supplies, maintenance, training and other start-up costs related to the construction and equipping of new manufacturing facilities have been expensed as incurred.

EARTH RESOURCES COMPANY

Exploration, Research and Development Expenditures:

The company charges all exploration, research and development expenditures to income as incurred. Exploration costs previously expensed on projects for which commercial development is later undertaken are capitalized and assigned to the related mine investment.

GRAND CENTRAL INC.

Store Opening Costs:

All pre-opening and extraordinary costs in connection with the opening of new stores are expensed during the year incurred.

HOOVER BALL AND BEARING COMPANY

Plant Start-up Costs: Plant start-up and other preoperating costs of new facilities are expensed as incurred.

HUMANA INC.

Deferred Charges:

The principal types of costs deferred are debt issuance and preopening costs. Debt issuance costs are amortized over the term of the related debt. Preopening costs are amortized over three years.

J. W. MAYS, INC.

Store Pre-opening Costs: Store pre-opening costs are deferred and charged to income in the year of the store opening.

THE UNITED STATES SHOE CORPORATION

Store Opening Costs—The company follows the practice of deferring new store opening costs until the month that the stores are opened.

RESERVES

AMERICAN FINANCIAL CORPORATION

Reserves for Unearned Premiums. Unearned insurance premiums represent essentially that portion of premiums written which is applicable to the unexpired terms of policies in force, generally computed by the application of daily pro-rata fractions. On reinsurance assumed from other insurance companies or written through various underwriting organizations, provision is made on the basis of reports réceived from such companies and organizations.

ARCTIC ENTERPRISES INC.

Product Warranties—Warranty reserves are provided as charges to current operations for estimated normal warranty costs and, if applicable, for any significant problems known to exist on products sold. Warranty costs on certain purchased parts and components, such as engines, are reimbursed to the company by supplying vendors.

LONG ISLAND LIGHTING COMPANY

Reserves for Claims and Damages: The Reserves for Claims and Damages consist of reserves for self-insured losses arising from claims against the Company, from extraordinary storm losses and from certain equipment damage. Provisions to the reserve are based upon experience, risk of loss and/or as specifically ordered by the PSC.

A. C. NIELSEN COMPANY

Severence Obligations

Certain foreign branches and subsidiaries are required to pay a severance allowance to employees. Generally, such payments are required upon voluntary or involuntary separation, and are based upon length of service and level of compensation. Provision is made annually for the additional severance allowances that would be payable if all eligible employees terminated their employment at the end of the year.

OTTER TAIL POWER COMPANY

Operating Reserves—The Company has provided reserves for self insurance against losses from storm damage to its property. Provisions for loss have been used in determination of rates approved by the applicable state commission. Provisions for 1976 and 1975 were $392,000 and $459,000, respectively.

WERNER CONTINENTAL INC.

Estimated liability for claims—The Company is self-insured to a limit of $50,000 per incident for workmen's compensation (in certain states), personal injury, property damage and cargo claims. The

Company follows the policy of establishing reserves for anticipated losses as claims are received based upon past experience and the probability of such losses being sustained. The Company also establishes, based upon historical claim experience, reserves for the above claims, plus freight overcharge claims, not received by year-end, that relate to the current year.

REVENUE RECOGNITION

AIR CALIFORNIA

Revenue

Revenue is recognized as passenger tickets are used. Unearned revenue consists principally of tickets sold but not used.

AMERICAN SECURITY CORPORATION

Interest on Loans

Interest on real estate, commercial and personal (time and demand) loans is accrued over the term of the loans based on the amount of principal outstanding except where serious doubt exists as to the collectibility of a loan, in which case the accrual of interest is discontinued. Unearned interest on discounted loans is recorded in income over the term of the loan using a method which results in a constant yield.

CENCOR, INC.

(b) Recognition of Revenues

Income of the finance companies from discount-basis cash loans and sales contracts and commissions on the related sale of credit life and accident and health insurance are recognized over the terms of the loans using the sum-of-digits method. No income is recognized in the month a loan is made; one and one-half months' income is recognized in the following month. Income from interest-bearing cash loans and delinquency fees are recognized on a collection basis. Discount rebated to customers liquidating loans prior to maturity is offset against the related unearned discount over an estimated average remaining term of fifteen months.

The Company's operations also include preschool day care, medical and dental education, tax return preparation and temporary employment services. Income from the preschool day care and tax return preparation services is recognized upon collection. A portion of the tuition charged medical students is taken into income in the month the student contracts to take the course to offset costs incurred in obtaining new students. The remaining portion of the tuition is deferred and taken into income over the course life. Income realized from temporary employment services is recognized as the services are performed.

CENTRAL PENN NATIONAL CORP.

Loans

Interest on commercial loans is accrued on the principal amount of loans outstanding. Interest on installment loans is accrued based upon the sum-of-the-digits method. Loans are stated at face value, less unearned discount, to reflect the net funds put at risk and made available to borrowers.

The Bank adopted a policy some years ago with respect to the accounting treatment of interest income on certain problem and non-performing loans. Interest is not accrued on those loans wherein a default of principal or interest existed for a period of 90 days, except such loans that are secured by collateral or guarantees to such an extent that they exceed the loan balance and all accrued interest due thereon.

On those non-performing loans on which the Bank has ceased accruing interest, and when collection is considered questionable, any accrued and unpaid interest on such loans is reversed and charged against current income. Thereafter, until such time as the loan becomes current (i.e., all defaults in payment of interest and/or principal are made current and the borrower has demonstrated an ability to continue such payments), interest is included in income only to the extent received in cash. The placing of a loan in the non-performing status is not necessarily indicative of a potential charge-off of principal.

CHELSEA INDUSTRIES INC.

Sales

Sales are recorded upon shipment or segregation of specific goods for later shipment at customers' request.

THE COLWELL COMPANY

(k) Unearned discount on installment contracts is amortized to income by use of the "rule of 78ths" method. A portion of the unearned discount on installment contracts is set aside as a reserve for uncollectible contracts and not amortized. The amount set aside is equal to one and one-half percent of the face amount of the outstanding installment contracts.

CONDEC CORPORATION

Revenues from long-term contracts are generally recognized based on items delivered.

COUSINS MORTGAGE AND EQUITY INVESTMENTS

Suspension of Income—

Accrual of income is suspended on any loan on which payments of principal, interest or rent are 60 or more days past due unless, in the opinion of the Trustees, such suspension is not warranted by the circumstances surrounding the investment.

DATAPOINT CORPORATION

Revenue Recognition

Revenue is recognized in accordance with the following methods:

(a) At time of shipment, if sold to customers,

(b) On the operating method ratably over the term of the lease, if leased to customers, or

(c) Over the terms of the leases as equipment rentals become due from customers (which approximates the operating method), if sold to a leasing company (see note 4).

DIAMOND M DRILLING COMPANY

Revenue and Income Recognition—Income from daywork contracts is recorded currently while revenue and expense from footage and turnkey contracts are deferred until contract depths are reached. Provisions for future losses on drilling contracts are recorded when it becomes apparent that contract drilling expenses (excluding rentals under noncapitalized financing leases) to be incurred on a specific contract will exceed the revenue from that contract.

Revenue and costs incurred to mobilize offshore rigs from one major area of operation to another are deferred and amortized to income over two years, or the term of the related drilling contract, whichever is longer.

THE GERBER SCIENTIFIC INSTRUMENT COMPANY

Accounting for Major Contracts

The company recognizes income applicable to major contracts in process on the percentage of completion method of accounting. Losses are recognized immediately as such losses become determinable.

GILFORD INSTRUMENT LABORATORIES INC.

Revenue Recognition

Revenue from sales of manufactured products is generally recognized upon passage of title, physical delivery, and acceptance by the customer. Revenue from service contracts is recognized ratably over the life of the contracts, generally one year.

HELENE CURTIS INDUSTRIES, INC.

Foreign Royalties—Foreign royalty income is included in sales and other revenues as such income is received.

HOUSTON NATURAL GAS CORPORATION

Revenue Recognition. Earnings from marine construction operations are reported on the percentage of completion method, based on estimates of the state of completion for vessels in process at the end of each year. No profit is recorded until 20% of estimated total labor for the respective vessels has been expended. In the event a loss on a contract becomes evident, the entire amount of the estimated loss is recorded in the period the loss is determined. In the marine transportation operations, certain revenues are billed at the beginning of a voyage. These revenues are recorded in income based on the distance traveled at year end, compared to the total distance of the voyage, and the remainder is deferred until the following year. Other sales and revenues are recorded generally at the time of delivery of goods or performance of service.

KAUFMAN AND BROAD, INC.

Housing Operations. On-site housing sales are recorded when individual dwelling units are completed and conditions precedent to closing have been fulfilled. Sales of major condominium housing projects are recorded on a percentage of completion basis commencing when construction has progressed beyond a preliminary stage and a substantial portion of the project has been sold. Profits on other real estate sales are recognized when a substantial down payment is received and there is reasonable assurance that resulting receivables will be collected.

LMF CORPORATION

Real Estate Sales:

Real estate transactions from which the Company receives a sufficient down payment (generally in excess of 20%) are recorded at the date of sale while transactions with small down payments are recorded on the installment or cost recovery method.

OTTER TAIL POWER COMPANY

Operating Revenues—Customers' meters are read and bills are rendered on a cycle basis, and revenues are recorded when billed. The Company's rate schedules applicable to substantially all customers include a cost of energy adjustment clause under which the rates are adjusted to reflect changes in the average cost of fuels and purchased power.

THE PARKER PEN COMPANY

Revenue Recognition

Revenue is recognized on sales of products at the time of shipment and on temporary help services at the time service is rendered. Initial license fees are recorded as income when received and when the licensee starts operating. Expenses associated with the issuance of license agreements are charged to expense as incurred. Continuing franchise fees from license agreements are recorded as revenue as the fees are earned.

PEAVEY COMPANY

Grain Sales

Sales of grain and related costs of grain sold are not reflected in the respective classifications in the consolidated statements of earnings. The gross margins earned from such activities are included in net sales.

PROPERTY CAPITAL TRUST

Income Recognition

Revenues and expenses are recorded using the accrual basis of accounting for both financial reporting and income tax purposes. However, revenues are not accrued if collection thereof is not reasonably assured.

STERLING PRECISION CORPORATION

Long-Term Construction Contracts

A consolidated subsidiary engaged in the engineering and fabrication business follows the completed contract method of accounting. Accordingly, the statements of consolidated income reflect sales and costs of contracts completed during the year. Anticipated losses to be incurred on contracts in progress are charged to income as soon as such losses are determined. The costs of contracts not completed less progress billings are reflected in inventories.

TRANSWAY INTERNATIONAL CORPORATION

Revenues: Transportation revenues, consisting principally of freight forwarding revenues, are recognized at the time freight is shipped from the origin station. Product sales are recognized upon passage of title to the customer which generally coincides with physical delivery and acceptance.

WERNER CONTINENTAL INC.

Revenue recognition—In accord with many carriers in the industry, revenue is recognized principally upon preparation of the freight bill at the origin terminal.

SELF-INSURANCE

ARCTIC ENTERPRISES INC.

Insurance—As of January 1, 1977, the Company began self-insuring against product liability claims for the first $1,000,000 per incident and $2,000,000 aggregate per year. Known incidents involving Company products are investigated and accruals are made for any estimated liability.

CAGLE'S, INC.

E. Self Insurance
The Company maintains a self-insurance program covering certain limited risks, principally vehicles and workmen's compensation. Coverages for risks in excess of predetermined limits continue with commercial carriers. Provision made for outstanding uninsured loss claims as of April 2, 1977 and April 3, 1976 amounted to $314,562 and $103,870, respectively.

DIAMOND M DRILLING COMPANY

Self-Insurance—Provisions for the self-insured portion of workmen's compensation claims are accrued as accidents occur based upon the Company's estimate of the aggregate exposure on claims or potential claims.

WERNER CONTINENTAL INC.

Estimated liability for claims—The Company is self-insured to a limit of $50,000 per incident for workmen's compensation (in certain states), personal injury, property damage and cargo claims. The Company follows the policy of establishing reserves for anticipated losses as claims are received based upon past experience and the probability of such losses being sustained. The Company also establishes, based upon historical claim experience, reserves for the above claims, plus freight overcharge claims, not received by year-end, that relate to the current year.

STOCK

FIRST MARYLAND BANCORP

Capital surplus—The capital surplus account includes amounts received in excess of par value when shares are issued for cash or other consideration.

GENESCO INC.

Financial statement reclassifications: Consistent with current accounting trends, all classes of preferred stock have been restated to liquidation value, retroactive to date of issuance. The effect of this restatement at 31 July 1975 was to reduce paid in capital $71,900,000 and retained earnings

$20,300,000 and to increase preferred stock by $92,200,000 all with no effect on total stockholders' equity.

KANSAS CITY SOUTHERN INDUSTRIES, INC.

Treasury Shares: The excess of par over cost of the Preferred shares held in Treasury is credited to capital surplus. Common shares held in Treasury are accounted for as if retired and the excess of cost over stated amount of such shares has been charged to retained earnings.

STERLING PRECISION CORPORATION

Warrants

The value ascribed to the warrants issued in connection with the Company's 8¾% notes and related financing costs are being charged to income over the life of the notes.

Treasury Stock

The cost of 658,532 shares of common stock of the Company at April 30, 1977 held by Milwaukee Western Corporation has been eliminated from the Company's investment therein and reclassified to treasury stock for financial statement purposes.

TOSCO CORPORATION

II. Preferred Stock: The excess of the mandatory redemption price over the fair value is amortized, using an interest method, by a charge to retained earnings over the period that the preferred stock is outstanding.

UNIVERSAL RESOURCES CORPORATION

Stock Warrants and Stock Options—

The Company accounts for stock warrants by crediting capital surplus for proceeds from the sale of stock warrants. Currently, common stock issued upon exercise of stock warrants are obtained from the Company's treasury shares. The difference between the cost of treasury shares and the exercise price is credited or charged to capital surplus.

STOCK OPTION/STOCK PURCHASE PLANS

ANDERSON JACOBSON, INC.

(g) Stock Options and Stock Purchase Plans

Proceeds from the sale of common stock issued under the employee stock option and stock purchase plans are credited to common stock to the extent of par value and to additional paid-in capital on the excess of the option or purchase price over par value.

(h) Earnings per Share

Earnings per share were computed based on the weighted average number of common shares and common equivalent shares outstanding during the year. Common stock equivalents include shares covered by the stock option and the stock purchase plans.

DIAGNOSTIC DATA, INC.

Qualified stock option plan—When options are exercised, the excess of the option price over par value is added to capital surplus. Income tax benefits resulting from the sale of shares by the optionees prior to the expiration of the required holding period for tax purposes are added to capital surplus.

FRIEDMAN INDUSTRIES INCORPORATED

Stock Options: Proceeds from the sale of Common Stock issued under options are credited to Common Stock at par value and the excess of the option price over par value is credited to additional paid-in capital.

THE J. M. SMUCKER COMPANY

Stock Options: The amounts received by the Company upon issuance of shares under the stock option plan are credited to "Common Shares" and "Additional Capital" accounts.

TAXES

ASPRO, INC.

Income Taxes

The tax effects of transactions are recognized in the year they are included in the statements of income, regardless of when they are recognized for tax purposes. The accumulated timing differences are reflected as future income tax benefits or as deferred federal income taxes in the balance sheets. The principal items which give rise to these differences are accelerated depreciation, compensation accrued under the Corporation's performance share unit plan and, in 1976, costs of relocating a subsidiary.

Investment tax credits are reflected as reductions of income tax expense in the years in which such credits are realized.

CARPENTER TECHNOLOGY CORP.

Income Taxes:

Investment tax credits are accounted for by use of the flow-through method whereby current federal income tax expense is reduced by such credits as they become available.

Deferred income taxes are due to timing differences between amounts reported for financial accounting and income tax purposes.

Federal income taxes are not provided on the undistributed earnings of associated foreign companies and a Domestic International Sales Corporation (DISC) since the Company intends to reinvest such earnings in these companies, thus deferring indefinitely the federal income tax on the earnings. If provided, the federal income tax on these earnings would have been insignificant.

CONDEC CORPORATION

Income tax provisions in the consolidated statement of earnings are based on reported income. These amounts include deferred income tax provisions which are charged against earnings currently, but Condec delays payment of taxes by taking all deductions as soon as available for tax purposes. Investment tax credits become available as related equipment is placed in service and are used to reduce income tax provisions when they can be used to reduce taxes actually payable. Prior to fiscal 1977, Condec did not provide for income taxes on the earnings of its "Domestic International Sales Corporations" (DISCs) which the Company intended to reinvest indefinitely. In fiscal 1976 a provision was made on DISC earnings expected to be remitted in the foreseeable future. In fiscal 1977 the Company has provided income taxes on all current DISC earnings.

GATES LEARJET CORPORATION

Undistributed subsidiary earnings—Because of the special tax treatment available to the Corporation's Domestic International Sales Corporation (DISC) and, since the Corporation intends to continue to reinvest undistributed earnings in the DISC, there is no provision for Federal income taxes for approximately 50% of the earnings of such subsidiary. The amount of undistributed earnings which are considered to be indefinitely reinvested is approximately $4,992,000.

GENERAL DYNAMICS CORPORATION

Deferred income taxes result primarily from timing differences between reporting practices for financial and tax purposes in depreciation and in the recognition of earnings on long-term contracts and programs. Effective 1 January 1976, the Corporation changed, with the permission of the Internal Revenue Service, to the completed contract method for reporting taxable earnings on long-term contracts. Under this method, substantial amounts of earnings recognized for financial reporting purposes are deferred for Federal income tax purposes. In addition, substantial costs, including general and administrative, state and local income taxes and certain fringe benefits, applicable to long-term contracts, which are inventoried for financial reporting purposes, are deducted currently under the completed contract method. Payment of the Federal income tax provided in 1976 will be deferred and the 1976 operating loss reportable for Federal income tax purposes will be carried back to prior years resulting in refundable Federal income taxes of $68.4 million.

HOUSTON NATURAL GAS CORPORATION

Income Taxes. Deferred income taxes are recognized on timing differences for income and expense items which are reported for tax purposes in different years than for financial purposes and on the portion of consolidated foreign earnings and Capital Construction Fund deposits of the marine transportation, services and construction business not expected to be permanently invested in qualified marine transportation shipping assets. Investment and foreign tax credits are applied on the flow-through basis.

PALL CORPORATION

Income Taxes:

Deferred taxes result from timing differences in the recognition of certain items for tax and financial statement purposes, principally from using accelerated depreciation methods for tax purposes and the straight-line method for financial statement purposes. Investment tax credits are recorded as a reduction of the provision for income taxes in the year utilized.

PROPERTY CAPITAL TRUST

Income Taxes

Property Capital Trust (the "Trust") has qualified and has elected to be taxed as a real estate investment trust under Sections 856-860 of the Internal Revenue Code and intends to continue to qualify and to distribute substantially all of its taxable income to its shareholders. Accordingly, no provision has been made for Federal income taxes.

THOROFARE MARKETS INC.

Investment Tax Credits:

When applicable, investment tax credits are applied in reduction of the current year's Federal income tax expense. Unused investment tax credits have not been recorded since they cannot be utilized in the absence of a Federal tax liability; such credits will be available to reduce future income taxes.

TRANSACTIONS WITH AFFILIATES

CARL M. FREEMAN ASSOCIATES, INC.

The excess cost of interests in partnerships and corporations purchased from related parties is being amortized against revenues as units within the respective entities are sold (see note B).

HONEYWELL INC.

Nonconsolidated Companies

Investments in capital stock of nonconsolidated subsidiaries and companies owned 50% or less (nonconsolidated companies) are carried at cost and are adjusted to reflect equity in earnings or losses since acquisition.

The nonconsolidated finance subsidiaries purchase customer obligations under rental and sales contracts for computer systems, related products, and computer services from consolidated subsidiaries of Honeywell Inc. As consideration, the selling subsidiaries pay a fee based upon the finance subsidiaries' expenses less interest income. All administrative functions relating to the receivables are performed by the selling subsidiaries.

In the Summary of Income, the income before income taxes of nonconsolidated finance subsidiaries is applied as a reduction of fees paid to those subsidiaries and the related income taxes are included in income taxes.

JACOBSON STORES INC.

Jacobson Stores Inc. has agreed to accept re-assignment of accounts receivable sold or assigned to the finance subsidiary which reach a defined state of delinquency.

PETERSON, HOWELL & HEATHER, INC.

The Company and its domestic subsidiaries file a consolidated Federal income tax return. The aggregate provision for income taxes, net of investment tax credits, is allocated to the Company and its subsidiaries generally on the basis of the individual company's income before taxes.

THE PROGRESSIVE CORPORATION

Related Party Transactions

The Company and its subsidiaries share common facilities and management with Progressive Mutual Insurance Company (Mutual). Written agreements, which may be terminated by either party upon one year's notice, provide that Mutual pays for services, salaries, space and supplies and the Company furnishes accounting, data processing and related services to Mutual.

SOUTHEAST BANKING CORPORATION
NON-BANKING SUBSIDIARIES

Related Party Transactions—The Non-Banks, with the exception of Southeast SBIC, Inc., Southeast Consumer Finance, Inc. and Southeast Mortgage Company and subsidiaries, which represent approximately 71% of total assets, 80% of total stockholders' equity, and 33% of total revenues at December 31, 1976 and 77% of total assets, 76% of stockholder's equity, and 40% of total revenues at December 31, 1975, derive substantially all of their revenues and expenses from related parties, as they exist primarily to provide support services to the Southeast system. Further, at December 31, 1976 and 1975, Other assets includes $5,511,000 and $2,304,000, respectively, of amounts due from affiliates. Mortgage debt includes $202,000 and $216,000, respectively, of debt due to affiliates, and principally all Short-term borrowings represent advances due to affiliates. See Note 5.

TAYLOR RENTAL CORPORATION

(g) Related parties—Receivables are transferred between Rental and Financial at the carrying value of the receivables. A provision for doubtful accounts and notes is recorded in the accounts of the company holding the receivables. Chargeoffs are recorded in the accounts of the company holding the receivables when repossession occurs. (See Note 10.)

APPENDIX

APRIL 1972

OPINIONS OF THE ACCOUNTING PRINCIPLES BOARD 22

DISCLOSURE OF ACCOUNTING POLICIES

INTRODUCTION

1. In recent years, a number of business enterprises have adopted the practice of including in their annual reports to shareholders a separate summary of the significant accounting policies followed in preparing the financial statements. This disclosure has been favorably received by users of financial statements and endorsed by organizations representing corporate business.

2. Practice by those entities that present summaries of accounting policies has varied considerably. Some present the summary of accounting policies as an integral part of the financial statements; others present it as supplementary information. In addition, both the nature and the degree of disclosure vary, and related guidelines are lacking.

3. Disclosure of accounting policies by those entities that do not present separate summaries has varied also. Some have included, in footnotes relating to particular items in the financial statements, descriptions of all significant accounting policies. Most entities, however, have disclosed no information as to certain significant accounting policies.

4. In view of the increasing recognition of the usefulness of disclosure of accounting policies, the Accounting Principles Board has considered whether this disclosure should be required in financial statements and whether guides should be established for the form and scope of disclosure. This Opinion sets forth the Board's conclusions.

DISCUSSION

5. Financial statements are the end product of the financial accounting process, which is governed by generally accepted accounting principles on three levels: pervasive principles, broad operating principles, and detailed principles.[1] Applying generally accepted accounting principles requires that judgment be exercised as to the relative appropriateness of acceptable alternative principles and methods of application in specific circumstances of diverse and complex economic activities. Although the combined efforts of professional accounting bodies, of business, and of the regulatory agencies have significantly reduced the number of acceptable alternatives and are expected to reduce the number further, judgment must nevertheless be exercised in applying principles at all three levels.

[1] See APB Statement No. 4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises*, Chapters 6, 7, and 8. This Opinion amends Statement No. 4 insofar as it relates to disclosure of accounting policies.

6. The *accounting policies* of a reporting entity are the specific accounting principles and the methods of applying those principles that are judged by the management of the entity to be the most appropriate in the circumstances to present fairly financial position, changes in financial position, and result of operations in accordance with generally accepted accounting principles and that accordingly have been adopted for preparing the financial statements.

7. The accounting policies adopted by a reporting entity can affect significantly the presentation of its financial position, changes in financial position, and results of operations. Accordingly, the usefulness of financial statements for purposes of making economic decisions about the reporting entity depends significantly upon the user's understanding of the accounting policies followed by the entity.

OPINION

Applicability

8. The Board concludes that information about the accounting policies adopted by a reporting entity is essential for financial statement users. When financial statements are issued purporting to present fairly financial position, changes in financial position, and results of operations in accordance with generally accepted accounting principles, a description of all significant accounting policies of the reporting entity should be included as an integral part of the financial statements. In circumstances where it may be appropriate to issue one or more of the basic financial statements without the others, purporting to present fairly the information given in accordance with generally accepted accounting principles, statements so presented should also include disclosure of the pertinent accounting policies.

9. The Board also concludes that information about the accounting policies adopted and followed by not-for-profit entities should be presented as an integral part of their financial statements.

10. The provisions of paragraphs 8 and 9 above are not intended to apply to unaudited financial statements issued as of a date between annual reporting dates (e.g., each quarter) if the reporting entity has not changed its accounting policies since the end of its preceding fiscal year.[2]

11. This Opinion does not supersede any prior pronouncement of the American Institute of Certified Public Accountants relating to disclosure requirements.

Content

12. Disclosure of accounting policies should identify and describe the accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, changes in financial position, or results of operations. In general, the disclosure should encompass important judgments as to appropriateness of principles relating to recognition of revenue and allocation of asset costs to current and future periods; in particular, it should encompass those accounting principles and methods that involve any of the following:

a. A selection from existing acceptable alternatives;
b. Principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry;
c. Unusual or innovative applications of generally accepted accounting principles (and, as applicable, of principles and methods peculiar to the industry in which the reporting entity operates).

[2] The Board recognizes also that it may be appropriate to omit disclosure of accounting policies in some other circumstances; for example, from financial statements restricted to internal use only (see Statement on Auditing Procedure No. 38, paragraphs 5 and 6) and from certain special reports in which incomplete or no financial presentations are made (see Statement on Auditing Procedure No. 33, Chapter 13, paragraphs 9 and 10).

13. Examples of disclosures by a business entity commonly required with respect to accounting policies would include, among others, those relating to basis of consolidation, depreciation methods, amortization of intangibles, inventory pricing, accounting for research and development costs (including basis for amortization),* translation of foreign currencies,* recognition of profit on long-term construction-type contracts, and recognition of revenue from franchising and leasing operations. This list of examples is not all-inclusive.

* ED. NOTE: Paragraph 4 of FASB Statement No. 8 "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements" amends, effective for fiscal years beginning on or after January 1, 1976, paragraph 13 of *APB Opinion No. 22* "Disclosure of Accounting Policies," to delete "translation of foreign currencies" as an example of disclosure "commonly required with respect to accounting policies."

Paragraph 5 of FASB Statement No. 2 "Accounting for Research and Development Costs" amends, effective for fiscal years beginning on or after January 1, 1975, Paragraph 13 of *APB Opinion No. 22* "Disclosure of Accounting Policies," to delete "research and development costs (including basis for amortization)" as an example of disclosure "commonly required" with respect to accounting policies.

14. Financial statement disclosure of accounting policies should not duplicate details (e.g., composition of inventories or of plant assets) presented elsewhere as part of the financial statements. In some cases, the disclosure of accounting policies should refer to related details presented elsewhere as part of the financial statements; for example, changes in accounting policies during the period should be described with cross-reference to the disclosure required by APB Opinion No. 20, *Accounting Changes*, of the current effect of the change and of the proforma effect of retroactive application.

Format

15. The Board recognizes the need for flexibility in matters of format (including the location) of disclosure of accounting policies provided that the reporting entity identifies and describes its significant accounting policies as an integral part of its financial statements in accordance with the foregoing guides in this Opinion. The Board believes that the disclosure is particularly useful if given in a separate *Summary of Significant Accounting Policies* preceding the notes to financial statements or as the initial note. Accordingly, it expresses its preference for that format under the same or a similar title.

EFFECTIVE DATE

16. This opinion shall be effective for fiscal year beginning after December 31, 1971. The Board, however, encourages earlier application of the provisions of this Opinion.

The Opinion entitled "Disclosure of Accounting Policies" was adopted unanimously by the eighteen members of the Board, of whom four, Messrs. Broeker, Burger, Norr and Watt assented with qualification.

Messrs. Broeker, Burger and Watt assent to the issuance of this Opinion because they believe it should enhance the usefulness of financial statements to investors and other users. However, they qualify their assent because paragraph 10 does not require accounting policies to be disclosed in unaudited interim financial statements which are intended to present fairly financial position, changes in financial position, and results of operations in accordance with generally accepted accounting principles. They agree that the provisions of paragraphs 8 and 9 should not apply to incomplete or condensed financial data published periodically when no accounting policy has been changed. To say that there is a different degree of adequacy of disclosure as between unaudited interim financial statements that purport to present fairly financial position, changes in financial position, and results of oeprations in accordance with generally accepted accounting principles and audited interim financial statements that purport to present the same thing is an inconsistent and untenable position. Furthermore, they believe that it is entirely inconsistent for paragraph 10 to permit the omission of some disclosures from such unaudited interim financial statements while paragraph 11 calls for the inclusion of other disclosures required by prior pronouncements of the American Institute of Certified Public Accountants.

Messrs. Broeker, Burger and Watt, while not agreeing with paragraph 10, also believe that it should have made clear that, if the reporting entity has changed its accounting policies since the end of its preceding fiscal year, it should have to describe only those that were changed.

Mr. Norr assents to the issuance of this Opinion but feels that paragraph 12 does not go far enough. He believes that mere disclosure of accounting policies does not meet the needs of readers. Where alternatives exist he believes that standards must be created. Then deviations from standard must be indicated in order to measure the dollar impact on net income. In the absence of such alternatively derived net income figures he believes the user is not well served.

NOTES

Opinions of the Accounting Principles Board present the conclusions of at least two-thirds of the members of the Board, which is the senior technical body of the Institute authorized to issue pronouncements on accounting principles.

Board Opinions are considered appropriate in all circumstances covered but need not be applied to immaterial items.

Covering all possible conditions and circumstances in an Opinion of the Accounting Principles Board is usually impracticable. The substance of transactions and the principles, guides, rules, and criteria described in Opinions should control the accounting for transactions not expressly covered.

Unless otherwise stated, Opinions of the Board are not intended to be retroactive.

Rule 203 of the Institute's Rules of Conduct prohibits a member from expressing his opinion that financial statements are presented in conformity with generally accepted accounting principles if the statements depart in a material respect from such principles unless he can demonstrate that due to unusual circumstances application of the principles would result in misleading statements—in which case his report must describe the departure, its approximate effects, if practicable, and the reasons why compliance with the established principles would result in misleading statements.

Pursuant to resolution of Council, this Opinion of the APB establishes, until such time as they are expressly superseded by action of FASB, accounting principles which fall within the provisions of Rule 203 of the Rules of Conduct.

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